Final Draft
University Hill Business Plan
Ross Consulting Group
September 13, 2004

Table of Contents

FOREWARD

Ross Consulting Group (RCG) was engaged by UHGID to investigate the University Hill Commercial District ("The Hill") in order to gauge the area's development potential and to determine whether the existing conditions are representative of those that could be achieved under different stewardship and evolving community goals. This initiative comes on the heels of a community study performed by PUMA that investigated the relative degree of community satisfaction with current Hill conditions and also delved into desires of commercial tenancy that might be accommodated in lieu of existing tenants. While the PUMA study helped document community dissatisfaction with existing conditions, its purpose was not to address viability of change from those existing conditions. As UHGID and related stakeholders have not found a "silver bullet" to effect change on The Hill, RCG was brought in to help establish realistic expectations and goals, and to outline steps to achieve those goals outlined in The Hill Vision Plan.

RCG's work-product is effectively a business plan for UHGID, property owners, and the City of Boulder to consider in evaluating possibility for changes on The Hill. This plan and its components attempt to present both large-scale and small-scale opportunities to improve the viability and vitality of commercial and residential uses on The Hill.

RCG recommends that this business plan be utilized to foster discussion among business owners and property owners, neighboring residents, the University of Colorado, and the City of Boulder. Further, RCG recommends that a land planning/architecture firm be utilized to *"vision"* some of the concepts outlined herein in order to illustrate possible benefits and consequences as well as to guide potential planning and zoning modification negotiations.

Because this business plan is constructed in advance of the land planning and architecture components, some of the massing and density issues as well as civic components on The Hill necessarily require further study. Accordingly, the recommendations included herein are intended to be directional rather than literal, outlining courses which should be followed in order to determine the appropriate architectural and planning solutions for The Hill and its environs.

EXECUTIVE SUMMARY

Through the process of evaluating the University Hill Commercial District, RCG confirmed that the area holds far greater commercial office, retail, and residential potential than is currently being realized. While the 29th Street redevelopment may consume some of the untapped market potential, RCG is confident that the market demand far outstrips supply for various uses on this Site. The factors impacting usage and redevelopment include the following:

- Strong underlying retail market fundamentals. Paradoxically, The Hill's success as a retail destination has also created The Hill's current lack of tenant diversity. Proximity to the University of Colorado drives the attraction to this area, creating a continuous stream of interest from business owners and entrepreneurs wanting to open businesses on The Hill. This demand has conditioned property owners to avoid the brokerage community when needing to rent space and instead place their own signs in storefront windows—thus saving on brokerage commissions, and demands for tenant improvement allowances that exist with other retail alternatives. As a result, spaces are rarely vacant but few national or regional retailers ever learn about space availability on The Hill. Instead, many small businesses get established on The Hill trying to cater specifically to the current student market and retail has been trending strongly toward convenience retail and eating/drinking establishments.

- High turnover. Due to relatively cheap rents, outdated buildings, and the large percentage of start-up businesses on The Hill trying to cater to the continuous stream of University-related traffic, The Hill has become known as an incubator. While some of the businesses enjoy wild success, many others close within the first three years of operation. This also tends to translate into fairly inexperienced management staff, unaware of retail trends and strategies for increasing sales, but eager to be on The Hill.

- Absentee Landowners. A significant number of property owners on The Hill have been owners for many years, and have grown accustomed to steady rent checks without significant brokerage expense, tenant improvement expense, or required capital improvements.

- Parking. Public parking on The Hill, while available, is generally considered to be either severely lacking or poorly located. Poor proximity of convenience parking tends to reinforce the CU-orientation of retail, as most visitors and business owners consider it to be unrealistic that non-university visitors would patronize the area.

- Zoning. Current zoning is restrictive on what can be constructed on The Hill. Because of those constraints, there is a strong financial disincentive for redevelopment to occur. While the area as a whole is characterized by undeveloped density, the cost and associated timeline for developers to redevelop and seize additional density is considered to be prohibitive.

- Retail trends. Over the course of the last ten years, retail trends have changed considerably. Individually and collectively, these retail changes have all impacted retailing on The Hill.
  - Lifestyle centers, or exterior-facing stores located in auto-oriented locations, are characterized by tenants formerly seen only in enclosed malls. These malls cater to busy people who do not have time to wander through a regional mall and are unlikely to have time to search for parking.

- Big box retail centers, or Power Centers, have established themselves as the primary shopping destination for the busy family. Shoppers have spoken, and they are strongly favoring one-stop destinations that allow them to make weekly purchases and then utilize time and money saved to pursue other leisure activities.
- Regional malls are consolidating, with many secondary locations suffering declining sales and weakening tenant base. Many of these older malls are in the process of being redeveloped into Power Centers, or a mixed-use center incorporating aspects of big box retail, residential, and office.
- Entertainment/Shopputainment centers, or destinations that incorporate aspects of boutique retail together with restaurants, theatres, bars, and other entertainment venues are becoming popular on the national stage. These centers are the antithesis of the Power Center. Rather than focusing on accommodating a large number of convenience trips, instead they focus on extending the duration of each trip into a more enjoyable experience. It is this trend that most closely describes the primary potential of The Hill. The new 29th Street redevelopment hopes to corral some of the same appeal in a larger format retailing concept, but lacks the small scale, historic and main-street appeal that defines The Hill.

- <u>Existing Hill retail space configuration is limiting.</u> Not only are the majority of Hill retail floorplates very small, but they are also characterized by relatively low ceiling heights. Retailers, therefore, need to be able to work within the existing space envelope in order to operate on The Hill. As retailers evaluate various location decisions, however, functional considerations such as floorplate sizes and ceiling heights weigh very strongly into site selection decisions. As the real estate cost is a relatively large proportion of the overall business expenditure, business operators need to be sure that the real estate effectively supports their business goals. For many retailers, these considerations would likely cause The Hill to fall lower on their list of preferred locations despite The Hill's CU proximity.

- <u>General consumer goods retail being replaced by restaurants.</u> As Flatiron Crossing has moved to fill shoppers' needs for general retail and Pearl Street Mall has moved to fill needs for boutique restaurants and shopping, the Hill has been transitioning from general consumer goods retail to convenience restaurant use. With increasing neighborhood resistance to additional liquor licenses, the new restaurants are being pushed in the direction of take-out and fast food to serve the lunchtime and harried student clientele. Convenience eating has therefore assumed a prominent position in numerous storefronts, and is consequently changing the nature and expectations of retail in the area. If this trend continues, The Hill will be overcome with student-oriented establishments, and will effectively cease to be considered a neighborhood commercial district.

- <u>Existing Hill tenant mix is limiting.</u> Retailers are reluctant to take risks. When existing retailing is trending toward convenience and fast-food uses, few retailers would consider locating unless their uses are in some ways complimentary to existing retailers. In this way, retailing character seldom moves quickly outside of new construction, and instead slowly evolves. Dramatic changes will be difficult, therefore, unless a significant presence of new retailers can emerge on the scene at the same time. This opportunity is discussed while evaluating potential for assemblages on The Hill.

RCG sees a number of options for helping free the existing development gridlock and broadening the tenant base to allow The Hill to evolve into a broader community center. These goals, shared by all stakeholders, were made abundantly clear through our study as well as through the findings of the PUMA study. Achieving the goals will be enabled through use of some combination of options indicated below. Importantly, these options are indeed *options*: they are avenues that RCG has identified in the process of analysis, which each require further vetting in order to determine appropriateness of incorporation by the City of Boulder. When conducting further investigation of the following options, it will be necessary to do so with the help of a land planning/architecture firm to further "vision" and understand potential outcomes and possible unintended consequences.

1. Zoning. Evaluate opportunities for changing or broadening zoning to allow for larger buildings, increased density, larger floorplates, and perhaps microzones. These changes would allow for economically viable redevelopment of underperforming buildings, and would provide property owners a significant incentive toward significant capital investment in their properties. Further, these changes would allow the property owners to build retail spaces that cater for different retail uses than exist on The Hill today.

2. Creation of Historic District. The Hill has significant historic value to the community and it is characterized by numerous buildings that help define and enrich the area's historic nature. As land values increase and building conditions deteriorate over time, wholesale redevelopment becomes more economically viable in what could be considered Historic buildings. Therefore, the City should seriously consider pursuing a historic district classification on the 13th Street corridor and possibly shift redevelopment and additional density to other parts of The Hill. Doing so would help preserve the nature of the area, and help provide individual property owners with effective tools for protecting their buildings through historic designation—including possible financial incentives in the form of historic tax credits, façade easement credits, and possible grant monies. This decision is not without risk, however, and needs to be carefully evaluated prior to commitment to pursue designation of an historic district. The pros and cons of historic designation are discussed in detail in the following report.

3. Transferable Development Rights (TDRs). As one of the primary goals for The Hill is to retain its historic charm, density allocations can play a significant role. There are some smaller buildings in the district (particularly in the 13th Street core) that have wonderful historic facades, but economics of redevelopment suggest they should be raised in favor of denser structures. This economic reality should be addressed before significant buildings are lost. One proven way of protecting those structures, in addition to historic designation, is through establishment of transferable development rights, or TDRs. The TDRs allow building owners to sever additional density rights from their building and to sell or transfer them to another property owner within the district who can then utilize those rights to build additional density than would otherwise be allowed under zoning. RCG recommends establishing sending and receiving TDR areas, so that the resulting activity from transfers can be better incorporated into area plans.

4. Civic spaces. The Hill is a tremendous draw for current and former students and has been over time for the surrounding community. Up to now, however, there is no civic space aside from city-owned parking lots that encourages people to gather. Whether partial closure of 13th Street during the evenings or introduction of a pocket park along 13th Street, The Hill could benefit from introduction of community elements that exist to help unify students, business owners, neighboring residents, and the greater community. When properly planned, these elements can evolve during different times of day (a place to enjoy lunch outside, read a book in the afternoon, and enjoy the

evening without having to go inside). RCG cautions that any civic space needs to respect the overriding goals for business viability, however, and recommends against full-time street closure.

5. <u>Central Parking.</u> Convenient, accessible parking would remove a significant barrier to the greater community from patronizing The Hill. Further, when incorporated into larger assemblage opportunities as a subterranean component, city-owned parking could provide the catalyst for redevelopment and change to occur on The Hill. This will also provide a consolidated opportunity for providing additional parking supply necessitated through better parking visibility and redevelopment activities on The Hill. Importantly however, this component needs to be integrated with larger redevelopment effort in order to achieve the goal of expanding retail mix and other uses on the Site.

RCG PROCESS

Over the course of the last 11 months, RCG has spent considerable time and effort researching various elements that influence or contribute to business viability and real estate values on The Hill. This process included a number of stakeholder interviews to help ground our analysis. Stakeholder interviews helped provide us with valuable perceptions, observations, and experience from UHGID board members, CU students, administration, residents from the University Hill neighborhood association, Hill business owners, City Staff, City Planning & Zoning, and property owners within The Hill commercial district.

This process affirmed the work of the previous PUMA study, informed RCG of the dynamics between stakeholders, and most importantly involved stakeholder groups in the process of creating a viable business plan. This process also initiated the dialogue of what change and redevelopment might feel like on The Hill - an area unaccustomed to much change. Of all of our findings, stakeholder reticence to embrace change was the most striking.

Stakeholder Findings

Other (not so surprising) findings included the following:

- The Hill's character is its main attraction
  - Funky
  - Historic charm & character
  - Mom & pop retailers
  - Hip
  - Not "corporate"
  - A place where students can simply hang out
- The Hill's location catalyzed the commercial success
  - Proximity to University of Colorado students, faculty, administrators, and alumni
  - Proximity to University Hill residential neighborhoods
- Everyone wants a more diverse retail community
- Everyone wants a more central parking solution
- The public events on The Hill are a big hit
- Everyone seems to endorse the creation of public gathering space
- Everyone wants a place that will draw a more diverse public to The Hill

City Involvement Discussions

Through our discussions with the City of Boulder, it is clear that the City endorses the goals of the stakeholders. Further, the City is willing to consider helping catalyze events that will lead to change. Such participation might include: cooperation in allowing a special district (or broadening the purpose of the district already in place); partnering on a public/private venture that has the City building and operating a parking structure component of a larger development; helping finance and construct public spaces on The Hill; and selling existing parking assets to allow redevelopment, once parking has been replaced elsewhere on The Hill.

Planning & Development Services Discussions

Through discussions with the Boulder Planning and Development Services, it is clear that they have deep regard for The Hill and the historic character it brings to the City of Boulder. With that in mind, they are reluctant to consider any proposal that might endanger the historic nature of existing buildings.

They would be much more willing to consider proposals that enhance vibrancy and vitality of businesses on The Hill, so long as those proposals help assure continued preservation of historic buildings.

As with any public process, the Planning and Development Services cannot commit to specific changes without significant study into specific proposals. Similarly, no changes should be requested of Planning and Development Services without a better understanding of the ramifications of those potential changes.

The nature of changes that could be considered include: designation of a historic district; introduction of microzones; transferable development rights; and modifications of what counts against Floor Area Ratio (FAR) under existing zoning; FAR; and height limits by right. The likelihood of any or all of these issues being changed on The Hill is yet to be determined. Boulder enjoys the “friction” that their process introduces into development, and a certain amount of that “friction” will help produce better developments. This friction does not necessarily mean higher cost and longer time within the City process, but instead helps craft a better integrated plan that involves City staff from the outset.

Existing Conditions Review

RCG reviewed existing conditions on The Hill in order to provide a baseline for our report. This process involved observing building conditions, tenancies within buildings, business health (as derived through Data Review described hereinafter), and the greater Boulder retail context. These baseline data points help illustrate existing conditions and determine whether perceived concerns can be verified.

Data Review

RCG reviewed proprietary tax collection data from the City of Boulder in order to better assess both health and trends of various businesses located on The Hill. Additionally, to provide context to RCG’s analysis, data from the Pearl Street Mall area was also reviewed. The combination of data from these two commercial areas provided a comprehensive look into retail trends as well as impacts of local economic conditions during the mid to late 1990’s and into the 2000’s.

The data collected and reviewed allowed RCG to parse the information by SIC-defined industry type, year, location, and by use. As will be discussed later in the report, the data revealed some telling trends on The Hill in terms of business health, turnover, uses over time, and impact of business size on longevity.

Because of the confidential nature of information reviewed for this process, RCG cannot provide reports on specific businesses.

REGIONAL & NATIONAL RETAIL TRENDS THAT RELATE TO UNIVERSITY HILL

While retail has always been a trendy asset class, subject to whims of the consumer marketplace, the trends experienced over the course of the last decade have been especially impactful to retail on The Hill.

Large format retailing blossomed during the 1990's, carrying forward a store format created by K-Mart, Wal-Mart, Target, and others many years earlier. The catalyst for the broad expansion of large format retail seems to lie in the economic expansion begun around 1990 coupled with the continued growth of two-job earner households. As more people entered the workforce and work hours grew, households had less free time available for shopping and recreating. As a consequence, the ability to make one stop for dry goods and groceries had great appeal—leaving more time for people to spend recreating with friends or family. Additionally, radical improvements in supply chain management and technology created significant consumer cost savings at these one-stop shops over more traditional less convenient retailers. These two broad market movements strongly favored selection and price over service, thus laying the groundwork for success experienced by: Costco, Sam's Club, Wal-Mart, The Home Depot, Lowes, Target, and many others.

These shopping trends tend to run completely counter to the Mall development craze of the 1970's and 1980's, and are helping to cause a number of neighborhood malls to suffer considerable sales declines. Some of the older malls are already in the process of being redeveloped to Power Centers (areas characterized by multiple, large-format retailers) or LifeStyle Centers (outdoor, unanchored shopping areas characterized by upscale tenants that were formerly found exclusively within malls). While Power Centers thrive on aggregating shopping for convenience—the fast food of retail, if you will—Lifestyle Centers recognize that specialty retailers have grown enough clout of their own to individually draw customers without a mall backdrop. These Lifestyle Center tenants, recognizing that sales had been declining as shoppers began trending away from frequent mall visits, seized on the idea of locating in an outdoor mall environment where patrons could park in front of their favorite specialty retail store. Carrying forward the fast food analogy, LifeStyle Centers would be the Starbucks drive-through alternative to Fast Food Power Center: higher price, higher image products available in non-traditional formats, which recognize the desire of shoppers to get in and out without undue distraction.

Compounding this trend toward convenience-oriented retail is the impact of Internet shopping. Surfacing during the last decade, Internet shopping reached a fever-pitch during the late 1990's dot-com explosion with an endless array of shopping venues. Amazon.com, ebay, Yahoo!, Pets.com, and many other lesser-known sites provided people with an array of products available without the traditional "bricks and mortar" overhead costs. While many of these businesses have since ceased operations, usage of Internet-based shopping sites has continues to reach new heights in each year after the dot.com bust. The underlying trend supporting this movement is similar to the trend that catalyzed the explosion of large format retailing: shopper convenience, pricing advantage, selection, and flexible retailing hours. When coupled with reliable and low-cost shipping, Internet shopping has had an undeniably positive impact on shopper selection, pricing, and value.

While the success of Power Centers, LifeStyle Centers, and Internet shopping all revolve around commoditization of the shopping experience—focusing on convenience by reducing the duration and frequency of shopping visits while producing consumer pricing advantages over traditional retail methods—the net result is more spare time for recreation. This focus on recreation is itself creating new retail opportunities, as developers scramble to capture the attention and imagination of the buying public. Across the country, the trend is being manifest in smaller and larger cities, in new urbanist communities as well as redevelopments of older communities, as developers work to re-create main street retail. This main street retail tends to be focused on a myriad of eating/drinking choices, theatre (live or movie), boutique shopping, and civic or park spaces. Examples include Prescott Arizona; Long Beach, California; Lower Downtown Denver, Colorado; the outdoor mall area at Flatiron Crossing in Broomfield, Colorado, and many others.

Interestingly, the American public is demanding a destination where they can have choice from a panoply of restaurants/bars, interesting boutiques, entertainment venues, and small parks or plazas. These main-street retail establishments generally find success when proximity provides ample pedestrian traffic, and when parking is generally convenient to the location. Theatre and concert venues function as the traffic generator while restaurants and bars help extend the visits both before and after the entertainment function and boutique retail help capitalize upon the social nature of the outing. These boutiques tend to be successful when they sell art, jewelry, tourist items, and designer clothing that tends to be more unique than one might find in a mall or Power Center retailer.

The City of Boulder has experienced considerable change during this same period of retail transformation on a national scale. With strong growth curbs in place in the late 1990's, lack of large development parcels with economic scale, and aggressive incentives offered from neighboring communities, much of the regional growth around Boulder was effectively channeled to Longmont and the Louisville/Lafayette/Broomfield/Superior corridor. The growth not only resulted in tremendous residential growth outside of the City of Boulder, it also spawned tremendous retail growth outside the City of Boulder. With the Crossroads redevelopment effectively stalled, much of the retail momentum was allowed to shift to Broomfield with the introduction of Flatiron Crossing.

Flatiron Crossing, and the considerable amount of large and small format retail developed nearby as well as in Superior near the McCaslin exit off of US 36, took what had been a presumptive Boulder address for regional shopping and moved it out of the City. The economic impact of Flatiron Crossing will be lasting and not one to fade as the "newness" of the development wears off. Instead, Flatiron Crossing will shape retailing decisions within and adjacent to Boulder for many years to come.

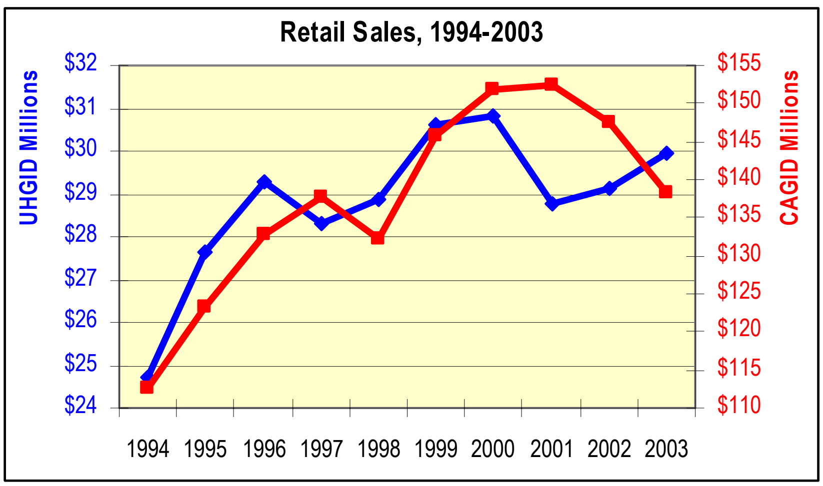
Retailing within the City of Boulder, thus effectively squeezed out of the large format shopping as well as super-regional mall, became relegated to main street retail, specialty and neighborhood convenience (grocery, dry cleaners, liquor store, hardware store, restaurants, etc.) retail. Nonetheless, because regional growth shifts considerable shopper traffic into neighboring communities, future retailing within the City of Boulder needs to be focused and well-targeted in order to be successful. Both Pearl Street Mall and The Hill need to shift more toward main street retail entertainment/eating/drinking/boutique shopping in order to be successful. Favorably, main street retail are natural strengths of Boulder.

In short, the American public is asking for a development that has all of the components of The Hill, with a moderately different tenant mix, parking availability, and public gathering spaces. While change creates anxiety, it is clear that many potential patrons of The Hill are not finding reasons to spend much time—or money—on The Hill. As a result, the majority of recent visitors to The Hill are from the CU community. This change in shopping demographics has an obvious impact on retailers and retailing on The Hill, as shopkeepers and restaurant owners shift their offerings to take advantage of the market available to them. This trend gets further solidified as new retailers are reluctant to locate on The Hill unless their uses compliment existing retail offerings. In other words, few single retailers would make a commitment to diverge dramatically from existing retail. The conditions that began alienating Hill residents thus get further entrenched on The Hill, and make further diversity difficult to achieve.

EXISTING BUSINESS CONDITIONS ON UNIVERSITY HILL

Business activity on The Hill, and as a result real estate activity, is primarily driven by retail sales which includes both general consumer goods sales and restaurant sales. This Hill Commercial District (referred herein as UHGID for purposes of sales analysis) is first a shopping destination as well as an entertainment destination and lastly an office and residential location. Services comprise a small portion of the revenue generated on the hill – an average of only 4% of total sales over the past 10 years. As the major driver and over the past 10 years, retail sales are generally trending upward, however, retail on The Hill as in all of Boulder, is not immune from national consumer cyclical trends. Still recovering from a 6% retail sales decline in 2001, The Hill has yet to reach its sales peak of 2000. By comparison, the greater Pearl Street mall area (referred herein as CAGID, central area general improvement district, for purposes of sales analysis) sales remained strong through 2001 but fell thereafter and continue to do so.

What does this mean? Any underlying fundamental problems in the UHGID retail makeup shook out with 2000's recession and 9/11. Ultimately, The Hill's dynamism allowed it to correct itself and move forward. On Pearl Street, fundamental problems are more entrenched and have been slow to shake out. Indeed, this is endemic of larger national retailers who characterize Pearl Street and who have suffered from finicky consumer behavior that has seen more money spent at automobiles dealerships and discount retailers. In general, however, the existing UHGID condition is one of healthy flux. It has strong segments and weak segments which are supported or replaced by a constant source of demand for Hill space.

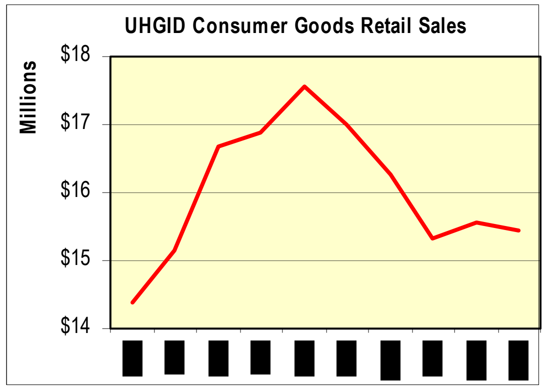


Retail Trends

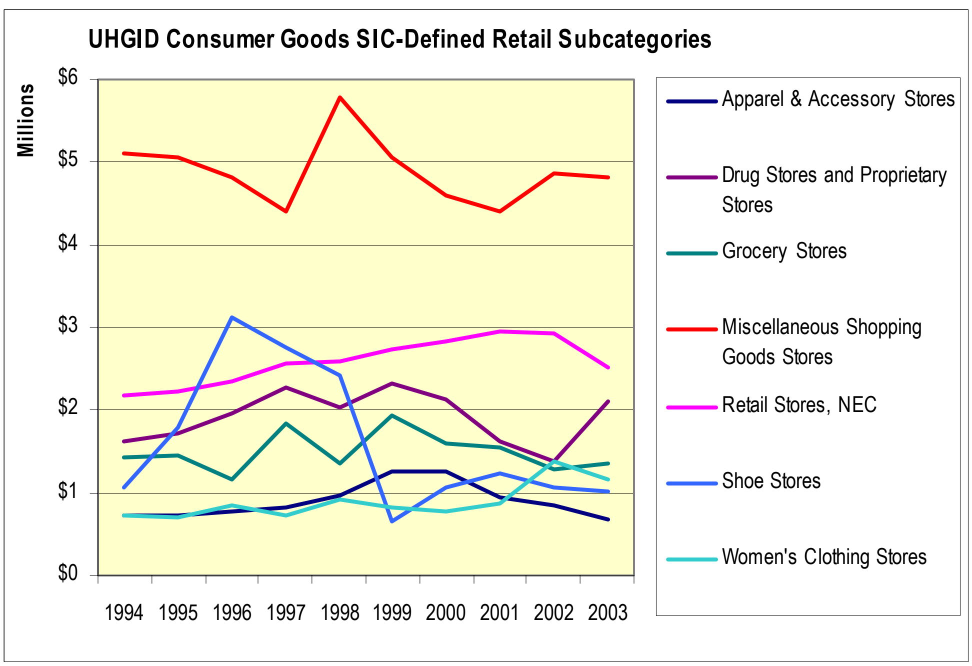
Retail Sales trends are broken down into several SIC-defined categories in order to comprehensively present the different trends that are impacting The Hill's financial and aesthetic performance. Retail sales are initially broken into two categories: Consumer Goods and Food & Drink. As the data demonstrates, these two categories have functioned quite differently over time suggesting a competitive rather than a complimentary or synergistic relationship. Understanding this dynamic is critical to understanding The Hill character and its changing face, as well as its future. Following this initial division of retail sales into consumer goods and food & drink, a further distinction is made between retailer sizes in each category. In other words, the retail sales performance and business longevity is analyzed based on the big and small retail players on The Hill. This analysis allows us to delve deeper into retail trends to explain things such as where the biggest sales hits came from in 2001, what kind of retailers are leading the resurgence in sales, and what retailer characteristics are likely to shape The Hill's character in the future.

Consumer Goods

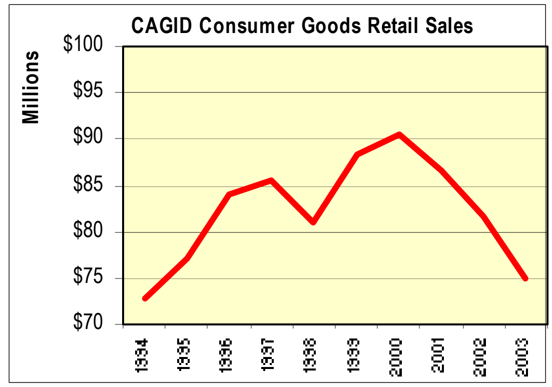
The Consumer Goods category comprises non-food/beverage related sales and includes businesses that sell items such as apparel, hardware, books, and drugs. While this category has traditionally made up the bulk of retail sales on The Hill, it has seen a precipitous decline in sales during the last 5 years. Indeed, in 2003 Consumer Goods sales were down 12% from their peak in 1998. During this 5 year time period, Boulder shoppers saw their shopping choices multiply with the development of the Flatirons Crossing Mall, a proliferation of discount super stores, and the advent of Internet shopping. Additionally, large national retailers evolved their shop formats over this period to favor larger format retail centers with high ceilings, abundant window space, high traffic counts, and abundant parking in front of each store for the SUVs they hope their customers will use to haul off their shopping bounty. The typical Hill building from the 1920's has none of these characteristics except the high foot traffic from CU students.



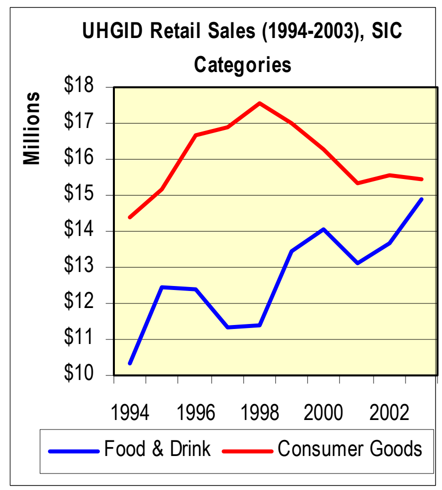
When taking even a closer look into consumer goods sales, it is possible to further break the category down into smaller SIC-defined subcategories. These subcategories define businesses based on the types of goods sold. (See Appendix for detailed SIC category definitions) The largest sub-category is "Miscellaneous Shopping Goods Stores" This confusingly named subcategory is an eclectic group that includes sporting goods, bicycle shops, and bookstores. While sales in this subcategory spiked in 1998, it has been in decline since with the exception of 2002 which saw a moderate increase that failed to sustain itself in 2003. As one can see from the graph, Shoe Stores lost a tremendous amount of market share between 1996 and 1999, and since then have not been able to gain much traction. Indeed the one category that has seen consistently increasing sales has been "Retail Stores, NEC" or Retail Stores Not Elsewhere Classified. This subcategory includes the retail components of



drug stores and is a major component of convenience related retail sales on The Hill. In all, the Consumer Goods retails sales on The Hill have been in decline for a prolonged time period. This trend cannot be attributed to a sluggish national economy as sales began to decline significantly prior to the recession of 2000. Indeed, the trend is indicative of the change in shopping preferences of The Hill's patrons who increasingly buy their consumer goods outside of the City.

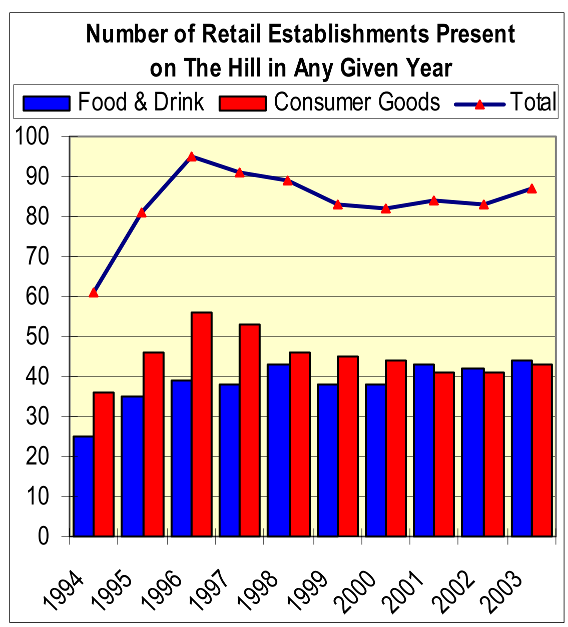


Even Pearl Street, where the retail formats are less constrained by historical building sizes, has suffered from this retailing trend. Interestingly however, Pearl Street consumer goods sales seem to be more closely driven by macro economic malaise than The Hill as Pearl Street's success and decline is more clearly correlated to the late- nineties technology era boom and bust. Pearl Street consumer goods sales' one year dip in 1998 is an anomaly in the area's steady late 1990's climb, but can perhaps be explained by City improvements and construction that impeded retailer access that year. Otherwise, Pearl Street's consumer goods sales mirror U.S. economic expansion and recession during this 10-year time period.



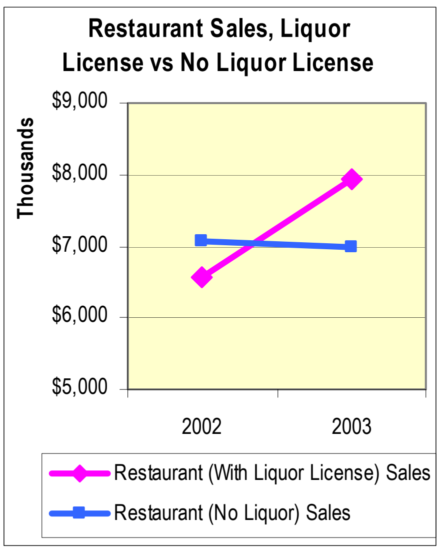
Food & Drink

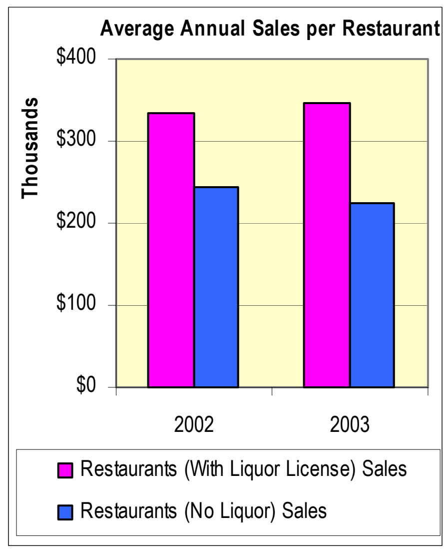
Food & Drink retailers have been the driving force behind The Hill's growth in overall retail sales over the last 10 years. The Food & Drink category is essentially restaurant sales that comprise both the food and beverage (alcohol and non-alcohol) sales in both full service and counter service restaurants on The Hill. Indeed, where consumer goods sales are down 12% since 1998, restaurant sales are up 31%. Upon delving deeper into the numbers, it is apparent that not only are existing restaurants seeing increased sales, but that restaurants are taking the place of consumer goods retailers as they leave the market in search of more advantageously sized floor space and consumer vehicular traffic. While the number of restaurants per capita across the U.S. has grown dramatically over the last 20 years as more families eat more of their meals outside the home, this trend is particularly impactful in Boulder as the major regional shopping venues have migrated outside the city to peripheral locations.



As demonstrated by the following chart, the average number of restaurants on The Hill in any given year has dramatically increased 48% over the last 10 years to the point that the majority of businesses on The Hill today are restaurants. On the flip side, the average number of consumer goods retailers on The Hill in any given year has decreased by 31% since the peak year of 1997. As turnover occurs on The Hill, restaurants are taking the place of traditional goods retailers giving rise to the complaint about the proliferation of fast food/subshop restaurants. In addition to real estate market share, it is critical to underscore market share of consumer dollars. Not only are restaurants taking up more physical space on The Hill, but they are also receiving an increasing share of all consumer dollars spent on The Hill. Given the trajectory of Hill restaurant sales, it is unlikely that this is a trend that will reverse itself anytime soon.

An important distinction in the Food & Drink category, or restaurant category, is the different performance of restaurants with liquor licenses as compared to those without. Restaurants that have liquor licenses have total restaurant sales that are on average 53% greater per restaurant per year than their non-licensed counterparts. Additionally, as a category their sales have increased 20% since 2002 whereas non-licensed restaurants have seen flat overall sales and declining sales per restaurant. What does all this mean? Non-liquor licensed restaurants face a challenging future on the hill. These are businesses prone to turnover that more volatile than liquor licensed restaurants. For example, between 2002 and 2003 The Hill lost 7 non-licensed restaurants and also gained 9. No licensed restaurants left The Hill in this time period while one was gained. In total, 2003 ended with 13 liquor licensed restaurants and 29 non-licensed restaurants on The Hill.





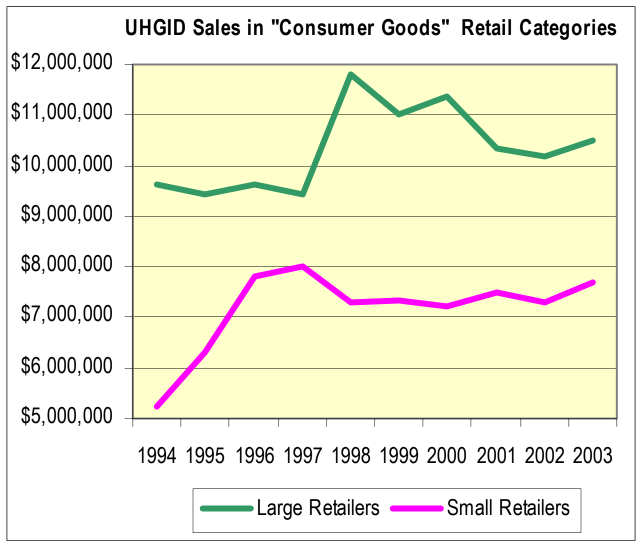
Retailer Sizes & Turnover

When analyzing retailer success and failure on The Hill in terms of both financial performance and contribution to the overall Hill character, it is important to understand which businesses comprise the contributors. One significant differentiating factor is retailer size. Because information is not available regarding the exact square footage each retailer that has existed on The Hill in the past 10 years occupied, RCG has analyzed retailer size in terms of sales volume and building size. While building size is not a perfect proxy for retailer size because there can be any number of retailers in one building, larger buildings do generally allow for larger retailer spaces and more visible and spacious storefronts. Additionally, sales volume does generally correspond to floor area. When analyzing retailers in terms of size, it becomes apparent that economics encourage convenience-oriented retail in smaller spaces. The simple fact is that non-convenience oriented retail has suffered in these spaces whereas the convenience retail is both nimble and non-capital intensive, allowing retailers to adapt to changing customer needs. This results in a robust demand pool of would-be retailers eager to try their business hand on The Hill.

In terms of building size, tenants of larger buildings have on average performed much better than tenants of smaller buildings giving them much less reason to vacate space. The median size of buildings that have had increasing retail sales over the past 10 years is 90% larger than the median size of buildings that have experienced declining retail sales over the past 10 years.

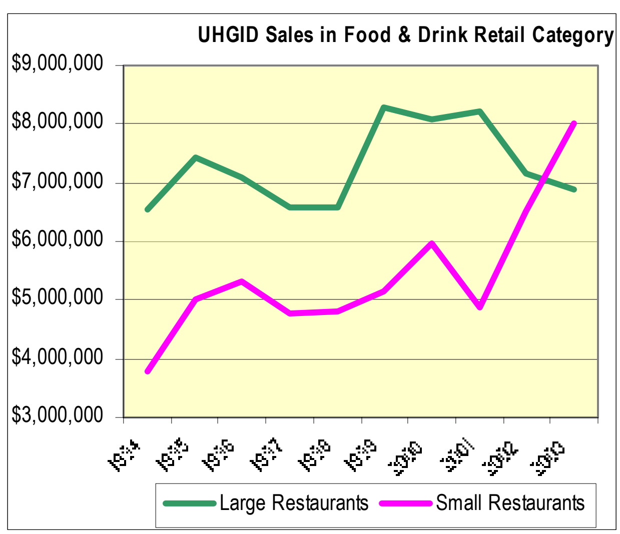
RCG has termed "Large Retailers" those that have on average individually comprised more than 3% of sales on The Hill during the past 10 years. A sampling of these large retailers in the Consumer Goods category include names such as The Colorado Bookstore, Kinsley's, Jones Drug, and Art Hardware whereas large Food & Drink retailers includes names such as The Sink, Tulagi, La Iguana, and Illegal Pete's.

In the Consumer Goods category, there is a strong explanation for the overall category's sales malaise. Since 1999, the large consumer goods retailers on The Hill have suffered dramatically declining sales (11% over past 5 years) and as the major drivers of this consumer goods category- the impact is acute. There are only 8 of these larger consumer goods retailers and they have accounted for roughly 60% of all consumer goods sales over the past 10 years as well as 35% of all Hill retail sales. Again, their declining sales trend is indicative of larger retailing trends around the country. As large format national retailers have moved decisively to locate themselves in the latest retail format (suburban Power and LifeStyle Centers), they have eschewed Hill-type space. Shoppers have followed.



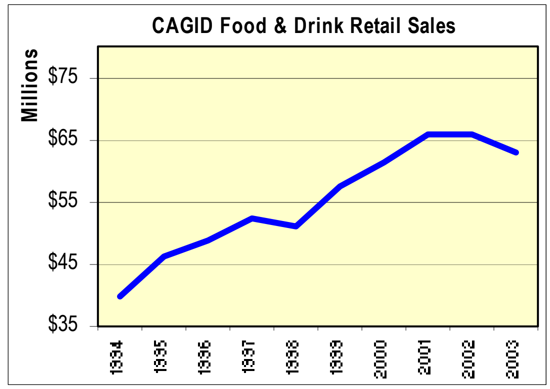
On the other hand, the smaller consumer goods retailers have adapted themselves to some degree and seen some meager sales improvements over the past 5 years (6%), although they have struggled to materially improve sales beyond 1997 levels. They have done so by cycling in and out of The Hill at a staggering pace. For example, there were roughly 140 small consumer goods retailers on The Hill during the last 10 years and of those, 86 appear to have left The Hill. This is a significant trend when compared to the performance of smaller restaurants who have seen much greater increases in overall sales during the same period. This suggests that small consumer goods retailers will be under increasing pressure from small convenience-oriented restaurants to take their space once vacated.

Indeed, small restaurants have seen a dramatic 99% increase in sales over the past 10 years. This compares to 5% sales growth in large restaurants in the same time period (inclusive of a 17% decline in



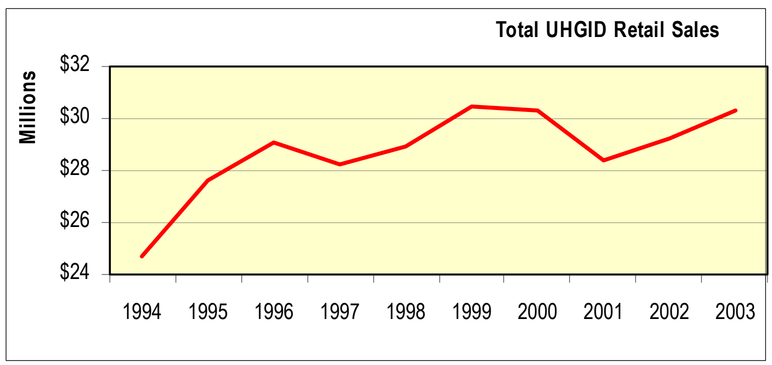
sales since 1999). What is happening here? Small restaurants are taking the place of existing small consumer goods retailers while large restaurants are struggling to break out and capture evening eating and drinking traffic that has migrated to other areas of town – notably Pearl Street which greatly expanded its capacity for eating with renovations to the mall in 1998.

Indeed, sales from the Food & Drink category on the Pearl Street Mall has seen steady growth over the past 10 years with the exception of just two years, 1998 and 2003. 1998 is likely explained by interruptions from renovation on the mall and 2003 can be explained by a struggling national economy and tourism business as well as the introduction of Flatirons.



Like small consumer goods retailers, small restaurants also cycle rapidly though The Hill. Both have a 3-5 year business cycle. Of the 86 small restaurants on The Hill in the past 10 years, 48 have left. Of the 10 larger restaurants on The Hill in the past 10 years, only 1 has left.

<u>Summary Retail Sales Findings</u>



Overall, retail sales data on The Hill paints a complex picture. With sales in the past 3 years underperforming their peak levels in 2000, increases in City taxes have offset decreased revenue and to some degree masked the true shifts underway on The Hill. The major shift in place is in the balance between consumer good and restaurant sales. As consumer goods sales are on the decline, food & drink sales are on the march and close to becoming the major source of sales revenue on The Hill. Today, food & drink sales revenue is evenly split between large and small restaurants and in general weighted toward restaurants of any size with liquor licenses. Because of these trends, retail revenues on The Hill are much less diversified than they have been historically and increasingly generated from a fewer number of businesses. Indeed, 70% of The Hill sales revenue comes from 11% of the tenants. This leaves the City tax base at a higher risk and property owners on The Hill with higher tenancy risk. It also means that there are non-performing retail categories on The Hill and therefore buildings that could see higher more stabilized rent. In other words, there are more than glimmers of reasons for reinvestment on The Hill.

Office Trends

The Hill is not currently a major office destination, and has relatively little office product for prospective office tenants. What little office space there is exists primarily in the North Gateway area. There are little upstairs offices in some building in the 13th Street core, but their impact on Hill character is negligible. Indeed, businesses categorized by Service SIC codes have made up only 4% of all Sales on The Hill in the past 10 years. Nonetheless, services comprised 7% of sales on The Hill in 2003 as compared to 2% of total sales on The Hill in 1994. This shows a small but growing demand for office oriented space. The major impediment to office space is parking, which is a difficulty not just for employees, but for customers and visitors as well.

The growth in services on The Hill, however, is also somewhat significant given that the greater Boulder office market has recently been experiencing its highest vacancy rates on record. This is largely a shock to the Boulder office market that has long considered itself to be immune from regional office trends, thanks to its 'special' Boulder location. Nonetheless, the Boulder office market, like the retail market, is heavily influenced by greater regional supply trends. Newer, cheaper, more DIA and Denver accessible Broomfield office space has taken its toll. It is this wider regional context that suggests Hill growth in services over this time period belies a market opportunity to capture office users who simply want a Hill location no matter what.

Residential Trends

The residential market on the Hill as in Boulder - both at one time considered impervious to regional trends – have shown themselves to be vulnerable. Indeed, from staggeringly low vacancy rates between 1% and 3% throughout the 90's, the Boulder University area residential market is now at a 10% vacancy rate. Increased supply from CU's Williams Village and Bear Creek have proven that students will in fact commute for lower prices and new building stock. Although a more proximate location than The Hill is not possible for CU students seeking off campus housing, the condition of the University Hill Commercial District residences and rooming houses is largely one of functional obsolescence and noticeable levels of deferred maintenance.

ZONING ISSUES ON UNIVERSITY HILL

The current Hill Business District zoning is BMS-X. While this zoning accurately reflects The Hill's nature, it does lack some of the zoning advantages established in Pearl Street's RB1-X and fails to recognize redevelopment potential on The Hill.

The descriptive definition of BMS-X district is "Business areas generally anchored around a main street that are intended to serve the surrounding residential neighborhoods. It is anticipated that development will occur in a pedestrian-oriented pattern, with buildings built up to the street; retail uses on the first floor; residential and office use above the first floor; and where complementary uses may be allowed."

The descriptive definition of RB1-X district is "The regional business redeveloping area within the downtown core that is in the process of changing to a higher intensity use where a wide range of office, retail and public uses are permitted. This area has the greatest potential for new development and redevelopment within the downtown core."

These differing descriptive definitions of the two districts demonstrate the City's original intent that redevelopment of The Hill be of a lesser intensity and purpose than that on Pearl Street. Where Pearl Street's redevelopment district in intended to serve the larger City and regional community, The Hill's redevelopment district is much smaller in scale. The following discussion of the differing permitted uses and schedule of bulk and density standards between the two districts highlights the redevelopment advantages established in the RB1-X zone that do not exist in the BMS-X zone.

In terms of permitted uses, the major advantage of the RB1-X zoning hinges upon retailing. In RB1-X, "department, major comparison goods, furniture store, or supermarket" as well as "drive-in" uses are explicitly allowed while they are a use permitted by review under BMS-X. Additionally, "vocational schools, adult education facilities, private schools and universities" are only permitted above the ground floor in BMS-X while they are allowed on any floor in RB1-X Also in terms of use, efficiency living units, when less than 20% of the total number of dwelling units in a development, are only permitted above the ground floor in BMS-X while they are allowed on any floor in RB1-X.

The BMS-X zone district does have a use advantage over RB1-X in that "boarding or rooming houses, fraternities and sororities, and dormitories" are permitted uses above the ground floor in BMS-X and prohibited uses in RB1-X.

When considering the two zoning district's schedules of bulk and density standards, RB1-X is also considerably advantaged compared to BMS-X. In terms of open space, BMS-X requires 15% minimum usable open space per lot and a minimum of 60 sq.ft. of minimum private open space per dwelling unit whereas RB1-X requires neither.

Importantly, within the BMS-X zoning there is a maximum building size of 15,000 sq.ft. (which can be exceeded through special review) while there are no maximum building size restrictions within RB1-X. And, RB1-X has Review Criteria that allows certain buildings within its district to exceed the 35-foot height limitation imposed on the RB1-X district, whereas BMS-X will allow for buildings to exceed the its 38 foot height limitation under special review, but does not have published review criteria. RB1-X also is allowed

“Floor Area Transfers” where BMS-X is not, that floor area may be transferred from one lot or parcel to another. Additionally, the BMS-X has more restrictions on yard size and setbacks than RB1-X.

It is RCG’s conclusion that limiting retail uses, requiring parking ratios, and limiting building sizes on The Hill will hinder future Hill redevelopment and that fast service convenience retail will continue to be the retail of choice.

Ultimately, there is considerable density on The Hill that is not being utilized regardless of BMS-X zoning. The average FAR on The Hill is 1.1 whereas the maximum allowed under BMS-X is 1.85. This means that there could theoretically be another 470,000 square feet of building space housed on The Hill which would almost double the amount of building space currently there—far higher density than would likely be optimal.

District	Land Area (Square Feet)	Building SF Today	Max Bldg SF assuming 1.85 FAR	Difference from Bldg SF Today	Lessor of 1.85 FAR or 15,000 SF	Difference from Bldg SF Today
UHGID	254,490	270,016	470,807	+200,791	366,382	+96,366
FAR Today (excludes UHGID parking Lot Land)		**1.1**	**1.85**	**Max FAR**	**1.44**	**FAR**

Doubling the building square footage on The Hill is not the outcome that any Hill stakeholders desire. However, there are major advantages to some additional space, reconfigured space and some generally larger buildings on The Hill. Current building size contributes to higher probability of continued consumer goods sales decline as these retailers seek modern formats and convenience related retailers and restaurants take their abandoned space. The height limitation without special review of 38 feet makes redevelopment difficult because retail ceiling heights are higher than office or residential and to meet this requirement would essentially take 3 story buildings down to 2. The other choice is for 3 short stories, which is undesirable. Moreover, current zoning does not recognize the different needs within The Hill and it encourages the redevelopment of shorter buildings into denser buildings.

Importantly, Boulder Planning and Development Services feels that the actual zone is not as important as the character the District wants to achieve. As such, they are willing to consider changes to the appropriate zone from their “menu” of zones once urban design analysis and planning evaluations have been completed.

OPPORTUNITIES & CONSTRAINTS ON UNIVERSITY HILL

Opportunities and constraints on The Hill are many. Ultimately, the opportunity lies in leveraging The Hill's unique Boulder location, market demographics, City initiative, and historic character to inject a new vitality onto The Hill that will catalyze private re-investment in core properties. Constraints on The Hill can be characterized as both macroeconomic and political. In other words, change on Hill will have to compete for market demand and against the costs of the Boulder development process (as compared to development processes outside Boulder) and the complications of fragmented ownership. The highly fragmented ownership on The Hill is particularly important because of the challenge in assembling parcels with adequate scale to justify redevelopment. These constraints are not insurmountable, but are factors to be understood and dealt with when planning for The Hill's future.

Proximity to University of Colorado

The Hill's proximity to the University of Colorado is perhaps its greatest opportunity and certainly its most defining characteristic. The daily infusion of 30,000 students on Hill represents a retailing dream for most merchants. The Hill's proximity to the school gives it a unique place of importance in the hearts and minds of both current students and alumni. Because of this shared identity, over time The Hill's location will not lose value even if its uses and structures deteriorate. This limits the downside risk to any would-be Hill investor.

Proximity to University Hill Residential Area

Because of the dynamic nature of the residential neighborhood that surrounds The Hill Commercial District, Hill retailers have some opportunity to serve various segments of the population beyond the CU student population. The residential neighborhood is comprised of both Boulder residents and a sizable yet churning CU student population that lives in the area immediately surrounding The Hill. The Hill Boulder residents are some of the wealthiest in Boulder with 2003 average household incomes of approximately $77,500 compared to the 2003 average citywide household income of $67,000. The opportunity to serve the non-student resident population is real. However, while these residents are eager to see more non-student oriented retail in their backyard and have the disposable income to spend there, CU student traffic through The Hill will always be dramatically larger than that of non-student residents. Hill non-student residents number approximately 5,600 compared to 30,000 strong CU population that considers the Hill the center of off-campus social life. This means that the CU student populations will continue to define the typical Hill shopper profile.

Parking Supply & Demand

Hill parking supply and demand present both opportunities and constraints to The Hill's future commercial success and district character. Currently, parking along the 13th Street corridor is tight and well used, making it difficult for shoppers to simply "drop in" on their favorite Hill stores. It is almost universally agreed upon by both retailers and customers that more abundant parking on The Hill would bring more people to The Hill than are otherwise there today. However, UHGID/CITY OF BOULDER parking does exist at both ends of The Hill and these parking lots are decisively underutilized. The great problem with the UHGID/City of Boulder parking today is not that it does not exist, but that is that it is either not known by potential customers or that it is viewed as being too peripheral to The Hill to provide easy and convenient access to the shops. As such, parking perception is currently a liability on The Hill and it unequivocally constrains building and business investment. With that said, the ability to cure parking problems on The Hill (whether they be real or perceptual) also presents a tremendous opportunity. Effective parking will open The Hill up to new uses and new customers. As the parking provider on The Hill with control of 2 lots and operational control of a third, UHGID/City of Boulder has the opportunity to create and commit to forward thinking parking solutions. UHGID/City of Boulder has declared a willingness to use these lots as a tool to encourage and shape future development that upholds the community vision and fulfills the Hill's potential. It is also important to note that successful new development on the Hill will, in and of itself, create parking demand on the Hill beyond that of today's demand level further necessitating innovative parking solutions.

In considering parking consolidation and expansion, it is quite feasible that a well-located parking structure would provide additional parking options for University-related activities. Because this traffic helps generate parking revenue to cover construction and financing of the garage, and because the traffic (appropriately channeled) will help sustain new and existing retail stores, RCG is not concerned about potential overlap.

Residential Supply & Demand

Proximity to the university and city center as well as retail appeal will always attract a certain younger demographic to a residential use on The Hill. Indeed, this demographic will be more willing than others to overlook a lack of parking, deteriorating building conditions, and nightlife noise. However, the Hill is not impervious to the market forces and is constrained by the regional residential supply. Again, supply of student housing has been dramatically increased in recent years and students are showing a greater willingness to live outside the city's boundaries for cheaper larger living spaces. Therefore residential space on The Hill will have to upgrade to compete.

Yet, a significant residential opportunity exists to leverage The Hill's unique proximity to CU and the surrounding residential neighborhood community. First, because the Hill is closer to CU than almost every other location in the City, student residential use on The Hill will always bring higher rents and higher occupancy than comparable product in the City or region. Any future Hill redeveloper can successfully build product for this student market. However, there are other markets – notably faculty/staff and senior alumni housing. Both markets are underserved and essentially untapped. These markets would flourish on The Hill as well as bring an incremental dose of maturity and spending power to The Hill. While neither market could be served today in the current stock of Hill building, they would play a profitable and primary role in any larger scale assemblage redevelopment scenario.

Office Supply & Demand

While the constraints faced by would-be office occupiers on The Hill are numerous today, the appeal of The Hill as an eventual office location is strong. The constraints today are simply limited, poorly configured and technologically inadequate un-parked space. The strong office location appeal, however, is created from complimentary entertainment uses on The Hill and the draw of being next door to a university source of energy, knowledge, employees, and potential customers.

Nonetheless, office use on The Hill will not be immune from larger regional office market forces. Recently, the Boulder office market has seen a significant increase in office competition (or supply) from surrounding cities. Interlocken alone in Broomfield has added more than 1,000,000 square feet of multi-tenant office space to the region since 1998, with considerably more single-tenant space that has begun to influence the multi-tenant market as those corporate occupiers (Sun, Level 3, and others) have downsized. When factoring in other growing cities such as Superior, Westminster and Longmont, it is fair to say that the Boulder office market, which has little land left on which to grow, is facing serious competition. Boulder office vacancy rates are currently at their highest historic levels hovering around 20%. Moreover, as new growth is more effectively located on the 36 Corridor to serve both the Denver and Boulder markets, those new buildings will possess a much larger office occupier and labor market to pull from.

This all points to a Boulder office market that is going to have to increasingly draw from an office user niche that specifically wants to live and work in Boulder. Office users that are cost sensitive, desire access to both Boulder and Denver, and have numerous employees that live in less expensive markets than Boulder will continue to have more affordable office choices along the Highway 36 corridor. Office users that can uniquely access and benefit from Boulder attributes will continue to thrive and do business in the City of Boulder.

Retail Supply & Demand

As has already been discussed, retail on The Hill is severely constrained by the current sizes and configurations of existing buildings on The Hill. New retail formats have taller ceiling heights, larger floor areas and greater storefront visibility. Moreover, peripheral parking keeps would-be shoppers from exploring The Hill. These constraints added to the larger national trends toward discount big box one-stop shopping combine to make it difficult for Hill retailers to compete with large national retailers. Nonetheless, certain consumer goods, designer goods sold in a boutique, or convenience goods have a potentially strong future on The Hill thanks largely to the 30,000 CU students who move through The Hill on a weekly, even daily basis. The opportunity to serve this population as well as the surrounding resident population with higher-end designer retail is strong but necessitates change. It is a matter of reconfiguring space to meet retailer objectives. In other words, build it and they will come. In the case of The Hill, however, "it" needs to be more than one stand-alone retail outlet: The Hill needs to create a cluster of shops that will begin to shift shopping expectations and surrounding retail characteristics.

Without change, The Hill will continue to house many small convenience and student oriented uses with a limited number of larger restaurants – but no more larger restaurants will appear without larger retail spaces and liquor licenses. Today, The Hill serves as a retail business incubator to the smaller shops due to its relatively inexpensive rents and access to the CU student population. It should be noted that the political forces that would limit the number of liquor licenses on The Hill conspire to shape the character of restaurants on The Hill toward convenience oriented student restaurants – or the proverbial "sub shops". Indeed, the political forces that blame bar activity for what is primarily underage house party activity in the neighboring residential areas, pose a significant constraint to entrepreneurial restaurateurs eager to try their hand at a Hill venture and bring a sit-down restaurant that can appeal to a larger population than just students.

Historic Building Stock

A historic building stock does many things: it enhances the aesthetic character of an area tying its patrons to traditions of the past, it can make properties eligible for government dollars and credits spent on the preservation of that space, and it can constrain building owners from renovating their functionally obsolete building to a higher use. In most cases on The Hill, the most architecturally significant and potentially historic buildings exist along the 13^{th} Street corridor. Preservation of The Hill's core could be economically beneficial to building owners if they have the opportunity to sell their untapped development rights—which, if used, would effectively destroy the historic character of their buildings. Historic tax credits and grants could also provide some incentive to renovate rather than replace deteriorating buildings. This is a strong opportunity to use City tools to preserve the district core and allow core owners to transfer existing development rights to non-core owners. Doing so could provide significant impetus to non-core peripheral building owners to reinvest in their properties.

SIGNIFICANT ROADBLOCK TO CHANGING THE HILL STATUS QUO

Despite considerable opportunities on The Hill, there are some major roadblocks that lie in front of significant investment being made on The Hill. These roadblocks must be understood in order to foster change.

Absentee Ownership/ Fragmented Ownership

Importantly, large blocks of The Hill are characterized by absentee or fragmented ownership. Many of these owners have held The Hill land and buildings in their family for years and are not currently burdened with debt. In other words, many of the buildings are investment cash cows that produce increasing cash flows which do not require much in the way of reinvestment by their owners. In fact, many tenants, rather than owners, make the necessary building improvements rather than the owners because the location is so desirable and rents are not prohibitive. The fragmented nature of the ownership also makes assemblage on The Hill particularly difficult for a developer who would have to either persuade multiple owners to participate in redevelopment or persuade these owners to sell their profitable buildings.

Management of Existing Businesses/Existing Leases

Another roadblock to the success of redevelopment on The Hill is the management currently in place at existing businesses. These are, for the most part, successful businesses and managers who will applaud a change on The Hill, but will also have serious qualms about redevelopment and disruption of "business as usual" at the buildings in which their businesses are housed. Indeed, abandonment of an operating business for up to a year of construction will spell certain death for most Hill retailers. Additionally, a landlord without the consent of their tenant cannot legally terminate existing tenant leases in place on The Hill. This means that building owners looking to redevelop their properties will have to wait for expiration of lease terms currently in place before they can reinvest in their properties. Moreover, it is unlikely that multi-tenant buildings have leases that will all expire at the same time. This increases developer costs as space must sit idle waiting for other space to free up.

Boulder Political Climate/Approval Process/Zoning

The Boulder approval process for development projects is perceived to be one that has considerable friction and holds considerable risk for any would-be developer. While this process has changed considerably of late, perceptions will lag the current reality. While this important system ensures that the City's vision of appropriate development occurs and results in the safeguarding of the City's unique character and charm (as well as property values), developers looking to enter the process face uncertainty that keeps them from projects that they might otherwise be engaged. In other words, the perception of time and dollars required to navigate the city approval process and design guidelines as well as the risk of rejection make the anticipated cost of development in Boulder greater than the cost of simply the development's bricks and mortar. This means that it is not simply any developer who can participate in The Hill redevelopment. Likely developers will either need to be current owners who have a low basis and stable income in the property currently; large scale national developers with the resources needed to complete purchases and weather the approval process; developers who have a better sense of current challenges and processes of actually developing within the City of Boulder; or a combination of the above.

Property Owner Economic Disincentive to Reinvest

Perhaps the greatest roadblock to redevelopment and likely the reason that more buildings have not been renovated already is the fact that for most property owners, it is not economically prudent or profitable to reinvest or redevelop their buildings today. (An in-depth financial analysis of building renovation/redevelopment options follows in the section *'Economics of Business Plan Implementation'*.) Essentially, the current income produced by the buildings is greater over time than that which could be produced over the same time period by renovating the buildings, disrupting cash flow, expending cash for construction and then raising rents. Once the risks involved with renovation/redevelopment is factored into cash flow, the economics of redevelopment are even less favorable.

BUSINESS PLAN

To be sure, the goal of a broader, more diverse retailer and consumer community will not be achieved without changes to existing conditions on The Hill. These changes include a combination of large and small steps that will help remove roadblocks to area revitalization. RCG proposes a comprehensive toolkit be assembled in order to help implement positive change.

Again, because this business plan is constructed in advance of the land planning and architecture components, some of the massing and density issues as well as civic components on The Hill necessarily require further study. Accordingly, the recommendations included herein are intended to be directional rather than literal, and will require further consideration and public discourse prior to implementation in order to determine the appropriate architectural and planning solutions for The Hill and its environs.

Lastly, the areas of consideration in this business plan are each parts of a toolkit: not all of these "tools" need to be implemented in order to achieve The Hill Vision Plan. Yet, some components of these tools will be necessary in order to make significant strides toward the Vision Plan. These are the individual items that have the ability to influence successful change on The Hill, and should therefore be further vetted in order to determine appropriateness in land planning, architecture, and assemblage discussions going forward. By embracing some combination of the following "tools", RCG projects that The Hill will see considerable evolution toward The Hill's goal. The velocity of change within that evolution will vary considerably according to the tools implemented.

A. <u>Embrace multiple uses on The Hill through redevelopment</u>
    a. The Hill exists as a retail, residential, and business center. While residential and business uses are more peripheral to The Hill Commercial District, their potential is undeniably attractive and should be embraced more centrally and in a mixed-use manner.
    b. Residential uses need to be broadened beyond student rooming houses, to include faculty, administration, alumni, and the general population. The area holds tremendous appeal on a 24-hour/7–day-per-week basis. Because of proximity to CU, this area has distinct possibilities to incorporate high-density residential use.
    c. Office uses, while not often generating the pedestrian traffic associated with retail stores, provide sustainability and consistency in neighborhood planning. Where absentee property owners may grow complacent with their investment and try to avoid re-investment, office users will help force broader upgrade of properties. This will be encouraged through higher rents and/or office condominium sales that provide property owners with higher return profiles than boarding rooms.

B. <u>Introduction of public space</u>
    a. Public space is desired in order to provide a civic focal point on The Hill. When properly executed, this will provide a multiple space purpose that changes during from day to evening, and from winter to summer. It will leverage off of existing convenience eating establishments for lunches and snacks—providing seating and community gathering. RCG recommends engaging the services of a land planner to begin visualizing the nature of the public space, whether it is characterized by landscaping or hardscaping ("green" or "hard"), and which attributes should be incorporated into the final plan:
        i. Students/faculty/administrators for lunch

ii. Hill neighborhood residents during afternoons/evenings
iii. Special events on evenings or weekends
iv. Small playground for attracting more diverse population to The Hill—people that are disinclined to frequent The Hill now—both the elderly and those with small children.
v. Meeting place after work/after theatre, so existing or potential retail patrons can gather without loitering inside/outside specific businesses.

b. Public space can help organize overall district layout, where today it is more characterized by haphazard planning that evolved over decades.
c. Funding for public space will need to be researched. Possibilities for funding include a UHGID special assessment; Boulder Open Space; private donation; and other public/private sources.

C. Implement part-time closure of 13th Street

a. RCG recommends against permanent closure of 13th Street. While permanent closure could provide the civic or public space previously mentioned, but it is not without risk: across the country, main street retail has been proven to function considerably better with restricted automobile traffic flow rather than no auto traffic flow. While on-street parking need not be significant, providing potential patrons the opportunity to drive through the district prior to making the investment (both time and money) to park can be crucial to the area's success. Because patronage is skewed toward the CU community today, RCG fears that total closure of 13th Street would seal the area's fate as a CU annex. While this may allow for moderate business successes among student patrons, RCG is confident that the area can support a much broader appeal—thus making it less desirable to make any decision that could result in narrowing rather than broadening the area's appeal.
b. RCG recommends consideration of partial closure of 13th Street. While this alternative would not allow for permanent public spaces to be erected in the roadway, it allows the area to transform at various times during the day or week. This method has been used successfully in California, Washington D.C. and even in Denver (Larimer Square, Old South Gaylord). The street could be closed after 6pm or on weekends to encourage more pedestrian activities without sacrificing retail viability during the week. While routine street closure would dramatically complicate on-street parking logistics and enforcement, the result could appease both advocates and critics of street closure. Without a centralized parking solution, however, RCG is concerned that partial closure of 13th street would force prime parking into the neighborhood during the dinner and entertainment hours—thus increasing tension with the neighborhood as eating and drinking establishments close in the early morning. Plans for partial street closure needs to be particularly sensitive to consequences of shifting parking allocation in order to divert early morning pedestrian and vehicular traffic away from surrounding neighborhoods.

D. Provide centralized parking solution. The parking alternatives in place, two City-owned metered lots and one CU-owned metered lot (operated by the City), do not provide convenient parking to The Hill. Further, patrons utilizing those metered lots seldom carry sufficient change in order to stay parked for more than a short visit to a store or restaurant. Proper parking tariffs will need to be well conceptualized in order to encourage parking availability for retail patrons throughout the day. Centralization of area parking to one visible and accessible parking structure would provide numerous advantages;

a. Remove reliance upon change or parking key in order to visit The Hill.
b. Remove burden from shopkeepers for having to make change for meters.

c. Impose ability to direct traffic to certain locations—both vehicular traffic to and from the garage as well as pedestrian traffic as it enters/leaves the garage area. This helps keep order, keep traffic flowing, and create new retail and business opportunities proximate to the traffic corridors.
d. Allow parking garage to be used for multiple events, at various times during the day. The area could function as overflow or convenience parking for CU students and administration during semester classes, as special-event parking during football games, and as overflow alumni parking for the Alumni center.
e. Allows for redevelopment of some other parking lots to other uses, for further revitalization of the district.
f. Partnering within context of larger development could enable project to be constructed, where it may otherwise fail under cost burden of structured parking.

E. <u>Explore Designation of 13th Street Core Area as Historic District</u>
a. Provide recognition for district that everyone already values for its historic contribution to the City of Boulder
b. Provide better access to rehabilitation funding for owners of contributing historic buildings through National Trust for Historic Preservation, State of Colorado, and City of Boulder.
c. Provide access to rehabilitation funding for owners of non-contributing buildings within historic district, which would otherwise not have access to rehabilitation funding

F. <u>Institute Microzones on The Hill to recognize and encourage different area characters</u>. Higher density areas should be studied by architectural firm in order to determine appropriate limits.
a. 13th Street remains largely as historic district, with strict governance on what can be built in the area.
b. Broadway District, from College to Pennsylvania becomes zoned for higher density uses, with higher height limits. This area becomes residential or office on upper floors, with retail on ground floor.
c. North Gateway, from University Avenue south to Pleasant Street, becomes zoned for moderately higher uses, possibly with higher heights or stepped height limits. Area becomes residential/office on upper floors, with retail on ground floor. Residential could include some mix of the following uses or any of the following uses exclusively: market housing, student/faculty housing, affordable housing, senior/alumni housing, and even fraternity/sorority housing. While this parcel has tremendous residential potential, it has some of the best office potential in the Hill District. Uses would want to be sufficiently fungible to accommodate needs of market between residential and office. This parcel could be come the iconographic gateway to The Hill on the north entrance.
d. South Gateway, 1350-1370 College and including the UHGID/City of Boulder-owned parking lot immediately south, becomes zoned for moderately higher uses, possibly with higher heights or stepped height limits. Residential on upper floors, with retail on College frontage. This parcel should become the iconographic gateway to The Hill on the South/East entrance.

G. <u>Institute Transferable Development Rights (TDRs) within The Hill District</u>.
a. Establish sending and receiving zones, thus encouraging which areas of the district should be more dense (see Microzones above).

b. Provides economic encouragement for property owners of historically significant properties to retain rather than redevelop those properties, by allowing those owners to sell development rights over and above existing density of their site.
c. Allows developers to achieve better economics of redevelopment (or more appropriately, allows redevelopment where otherwise redevelopment would not occur because of insufficient economic returns) through increasing density over that otherwise allowed under zoning. City could encourage increased zoning to areas where it might be more welcome (Broadway, North or South Gateways) and away from 13th Street.
d. Use of TDR's bears more discussion to further understand potential consequences regarding land values and property owner expectations.

H. <u>Encourage larger land assemblages to invigorate development and act as a significant agent of change in the area</u>.

a. By their very nature, larger land assemblages offer ability to more broadly introduce new or different development concepts to The Hill. When applied to peripheral/gateway locations like those previously identified, these assemblages have the opportunity to introduce a significant amount of new uses to the area, create external excitement about change occurring on The Hill, and fundamentally alter the retail, office, and residential dynamics that have been spiraling over the last decade. New retailers, new office tenants, and new residents will not only help bring people to visit the new developments, but they will generate traffic and demand that will help existing retailers (and retail locations) draw consumers that have fallen out of the habit of visiting The Hill.
b. As UHGID has already learned, one new tenant on The Hill is unlikely to generate much buzz or excitement. A single tenant may also encounter difficulty introducing concepts that appeal to different or broader markets than may already be served. The assemblage opportunities, again by their size, provide a proven method of broadening market demand by creating new sub-markets within an existing retail area.
c. The City can consider working in a joint-venture capacity with an assemblage developer to utilize land area beneath new development as a centralized and expanded parking solution. Through leveraging even one central assemblage, UHGID/City of Boulder could centralize and expand its three lots into a location that better serves The Hill, is more visible to vehicles driving by The Hill, lessens impacts to surrounding neighborhoods, and helps channel parkers by new and existing retail spaces—thus stimulating demand for retail sales.

ECONOMICS OF BUSINESS PLAN IMPLEMENTATION

When some or all of the changes listed above in the business plan are implemented, economically viable redevelopment is possible on The Hill where it is not currently viable today. Today, the financial impact of reinvestment into performing buildings is negative for most Hill building owners because of the strength of their current cash flow and the restrictions that would keep them from making significant size renovations to the existing buildings and thereby constraints incremental rent growth. However, when transferable development rights are allowed and larger parcels are assembled, redevelopment on The Hill becomes economically feasible. To demonstrate these Hill economics, RCG has built financial pro forma models that analyze multiple redevelopment scenarios and then compare the outcomes to those of status quo scenarios. These models illustrate the financial incentives and disincentives facing Hill developers. This is done in order to paint a picture of likely and unlikely Hill redevelopment.

Economics of Building Renovation Today

Current building owners have two primary options for reinvestment into their properties today. These options are building renovation or building reconstruction. Under a renovation scenario, the building owner would simply upgrade the buildings internal configuration and finishes. A reconstruction scenario would see a building demolished and rebuilt to a maximum size allowed under current zoning. Compared to a status quo scenario where no reinvestment is made, neither reinvestment scenario is financially rewarding to the building owner today. The following financial pro formas illustrate the economics for the average Hill building owner of a renovation scenario compared to a status quo scenario in which the building remains unchanged.

This status quo scenario uses various assumptions that are conservative in nature and attempt to present a proxy for the general conditions on The Hill. Necessarily, these assumptions will not hold true for each individual building on The Hill, however, they will represent the average building. The average building size on The Hill is 8,437 square feet. RCG's model examines the status quo scenario using an 8,500 square foot building that is 95% rentable. For purposes of analysis, this building owner collects $35 in rent per rentable square foot annually. The important distinction of rent is not the status quo rent, which may be higher or lower than this $35 per s.f. figure, but the difference between the status quo rent and the redeveloped rent. The status quo rent will escalate 1% each year with inflation. This rent is a 'Triple Net Lease' rent (or 'NNN') which means that a tenant will pay building expenses such as utilities and trash expenses in addition to this NNN rent. In other words, the NNN rent is the net rent received by the building owner that they would then use to pay debt service, make capital improvements, pay taxes or otherwise put into their pockets. Because the majority of building owners on The Hill have owned their buildings for many years, it is assumed for the purposes of this analysis that the status quo building does not bear a debt burden. The 10% Discount Rate and Residual Value Cap Rate reflect both the yield expectations and risk levels for this type of investment and its age. (Please see Glossary for Definitions of financial and real estate terms)

The resulting status quo cash flow over a 10-year period assuming a building sale in year 10 follows:

STATUS QUO SCENARIO — **Average Hill Building**

Assumptions		Bldg SF	% RBA	RBA
10%	Discount Rate	8,500	95%	8,075
10%	Residual Value Cap Rate			
$35.00	Rent NNN Estimate			
1%	Annual Rent Inflation			

	Rent		Status Quo - Building Owner Cashflow Average Hill Building										
Bldg RBA	NNN	Inflation	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	Total
8,075	$35.00	1%	$282,625	$285,451	$288,306	$291,189	$294,101	$297,042	$300,012	$303,012	$306,042	$309,103	$2,956,883
											Residual Value	$3,091,028	$3,091,028
Building Cash Flow			$282,625	$285,451	$288,306	$291,189	$294,101	$297,042	$300,012	$303,012	$306,042	$3,400,131	$6,047,911
Status Quo Cumulative Cash			$6,047,911										
Status Quo Net Present Value			$3,294,085										

The cumulative total cash value of the status quo scenario over a 10-year period is $6.0 million. The Net Present Value of this cash flow over the same period is $3.2 million and the cash flow is positive from day one. These are the benchmarks by which the average Hill building owner must compare the projected cash flow from any reinvestment scenario to determine if change is worth pursuing.

The following financial assumptions were made about a renovation reinvestment scenario in order to create its projected cash flow:

Building Owner Reinvestment Scenario - RENOVATION of Average Hill Building

Assumptions -Building Size and Uses

Existing Size				New Uses		
Existing Bldg SF	New Bldg SF	% RBA	RBA		Bldg Uses	RBA
				Retail	100%	8,075
8,500	8,500	95%	**8,075**	Total	100%	**8,075**

Assumptions -Timing, Cost, Revenue, & Financing

Project Timeline		Building Constuction Costs		Revenue		Financing	
1-Jan-05	Start Date	$0.00	Demolition per bldg sf	$40.00	Retail Rent psf (NNN)	7.00%	Construction Loan Interest Only Rate
1	Demolition (months)	$80.00	Building Hard Cost psf	9.00%	Residual Value Cap Rate	80.0%	Loan-to-Cost Ratio
6	Construction (months)	20%	Soft Cost	60.00%	% Pre-Leased	7.00%	Permanent Loan Interest Rate
5	Absorption (months)	$96.00	Total Cost psf	5.00%	Stabilized Vacancy	25	Perm Loan Amortization Term (years)
		$816,000	Total Cost (w/o inflation)	2.00%	Annual Income Inflation		
		$10.00	Operating Exp. psf (on vacant sf)	15%	Discount Rate till 1 Year Stabilization		
		2.00%	Annual Expense Inflation	10%	Discount Rate @ 1 Year Stabilization		

The most important assumptions are that renovation begins in January 2005, the total rentable area in the building remains the same after renovation, rent after renovation increase to $40 NNN and grows annually at 2%, and that renovation takes 7 months to complete. During the 7 months of construction, there is no income produced from the building. Additionally, the cost to renovate the building is $80 per square foot. This cost estimate would allow for an entire gutting of interior space and some restoration to the façade. After construction, the building is immediately 60% leased and then takes another 5 months for the remaining space to absorb and be fully rented. It is also assumed that the building owner will use debt to finance this reinvestment.

Like the status quo scenario, the building is sold in year 10. The Residual Cap Rate, which determines sale price, is lower in the renovation scenario than in the status quo scenario to reflect the improved building condition and lower deferred maintenance risk for any future buyer. The renovation scenario also has a higher discount rate for the years prior to the renovated building's stabilization. This higher rate reflects the higher risk of both an increased equity position in the building and general uncertainty in construction cost and resulting income. The resulting renovation scenario cash flow follows:

	Average Hill Building RENOVATION - Building Owner Cash Flow										
	2004	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**Total**
Pre-Renovation Revenue	$282,625	$0	$0	$0	$0	$0	$0	$0	$0	$0	$282,625
Constuction Cost - Equity Required	$0	($166,464)	$0	$0	$0	$0	$0	$0	$0	$0	($166,464)
Retail Rent	$0	$104,329	$336,049	$342,770	$349,626	$356,618	$363,750	$371,025	$378,446	$386,015	$2,988,629
Residential-Apt Rent	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Office Rent	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Stabilized Vacancy Expense	$0	$0	($16,802)	($17,139)	($17,481)	($17,831)	($18,188)	($18,551)	($18,922)	($19,301)	($144,215)
Operating Expense	$0	($8,075)	($4,201)	($4,285)	($4,370)	($4,458)	($4,547)	($4,638)	($4,731)	($4,825)	($44,129)
Operating Net Income	$282,625	($70,210)	$315,046	$321,347	$327,774	$334,329	$341,016	$347,836	$354,793	$361,889	$2,916,446
Residential-Condo Sales	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Office-Condo Sales	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Principle Paydown	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Residual Value	$0	$0	$0	$0	$0	$0	$0	$0	$0	$4,020,989	$4,020,989
Principal Outstanding	$0	$0	$0	$0	$0	$0	$0	$0	$0	($552,415)	($552,415)
Sale Net Income	$0	$0	$0	$0	$0	$0	$0	$0	$0	$3,468,573	$3,468,573
Construction Loan Interest	$0	($11,329)	$0	$0	$0	$0	$0	$0	$0	$0	($11,329)
Permanent Loan Interest	$0	($19,372)	($45,982)	($45,219)	($44,400)	($43,522)	($42,581)	($41,572)	($40,489)	($39,329)	($362,466)
Permanent Loan PrinciplePmt	$0	($4,188)	($10,561)	($11,325)	($12,143)	($13,021)	($13,962)	($14,972)	($16,054)	($17,215)	($113,441)
Total Debt Service	$0	($34,889)	($56,543)	($56,543)	($56,543)	($56,543)	($56,543)	($56,543)	($56,543)	($56,543)	($487,236)
Cash Flow After Debt Service	$282,625	($105,099)	$258,503	$264,804	$271,231	$277,786	$284,473	$291,293	$298,250	$3,773,919	$5,897,784
Renovation Cumulative Cash Value	$5,897,784	-2%	$6,047,911 Status Quo Cumulative Cash								
Renovation Net Present Value	$2,904,058	-12%	$3,294,085 Status Quo NPV								
	Variance b/t Status Quo & Renovation										

The renovation scenario cumulative cash value is $5.8 million and the net present value is $2.9. There is also a negative cash flow in year 2 which is recouped in year 3. As illustrated, the status quo scenario generates more cash over this 10-year period both on a cumulative cash basis and a net present value basis. Indeed, this is primarily explained by the year of lost income (2005) and the fact that the increased rental income is largely lost to debt service. The building owner who considers renovation of their building has to plan to make a significant ($250k+) cash investment into the building.

This financial analysis forecast is based on assumptions that will likely change. Therefore, it is important to consider variations of these assumptions. For example, a building owner considering reinvestment might wonder what the cash flow variance between scenarios would be if a different rent is achieved after renovation than the one used by RCG. Additionally, the status quo rent for a particular building owner may be lower than the $35 per s.f. that was used in the analysis. The attached sensitivity table demonstrates such an assumption variation. The table demonstrates the effect on the Cumulative Cash Variance between the scenarios. Importantly, it is not the status quo

	Rent After Renovation					
	$25	$30	$32.5	$35	$37.5	$40
$25	-25%	-5%	5%	15%	25%	35%
$27	-31%	-12%	-3%	6%	16%	25%
$28	-33%	-15%	-6%	3%	12%	21%
$29	-35%	-18%	-9%	-1%	8%	17%
$30	-37%	-20%	-12%	-4%	5%	13%
$31	-39%	-23%	-15%	-7%	1%	9%
$32	-41%	-25%	-17%	-9%	-2%	6%
$34	-44%	-29%	-22%	-14%	-7%	0%
$35	-45%	-31%	-24%	-17%	-10%	**-2%**
Status Quo Rent	**Cumulative Cash Variance**					

rent that is the determining factor in the analysis, but instead the increment between the status quo rent and the renovation rent. As can be seen, a $5 increment or less between the status quo rent and the rent after renovation will result in less cumulative cash in the renovation scenario than in the status quo. Further, because renovations are likely to last longer than the 7 months indicated (either through phased lease expirations, unexpected conditions encountered on renovating old buildings, or delays due to permits or building department inspections), actual economic performance is likely to be *worse* than projected.

The potential benefit of utilizing historic renovation tax credits was not taken into account for the following reasons: historic renovation will require the property owner to expend monies for preservation that would otherwise not be spent. While the historic tax credits will help the property owner recapture some of those monies (approximately 20% of every dollar spent on the renovation), the additional expenditure and additional time spent in pursing a historically accurate restoration, will effectively offset savings achieved through the tax credit.

Economics of Building Reconstruction Today

This average Hill building owner might be inclined to consider more than just renovation of their building. Under current zoning, a Hill property owner could tear down and reconstruct their building in order to maximize density allowed under current zoning to achieve a greater size, add additional uses, and modernize the retail space. As with the renovation scenario, the owner will have to judge the financial outcome of reconstruction against the status quo scenario under which no changes are made to the building. The owner's status quo scenario remains the same as with the renovation comparison with a $6.0 million cash value and a $3.2 million net present value. The following financial assumptions are made about the reconstruction scenario:

Building Owner Reinvestment Scenario - RECONSTRUCTION of Average Hill Building

Assumptions -Building Size and Uses								
Parcel Size - Existing and New					**New Uses**			
Existing Bldg Size	Land SF	Max Bldg Size	% RBA	New RBA		Bldg Uses	RBA	
8,500	7,727	14,295	95%	**13,581**	Retail	50%	6,790	
					Resid-Condo	50%	6,790	
Avg District FAR	1.1	1.85	Max FAR		Total	100%	**13,581**	

Assumptions -Timing, Cost, Revenue, & Financing							
Project Timeline		**Building Constuction Costs**		**Revenue**		**Financing**	
1-Jan-05	Start Date	$10.00	Demolition per bldg sf	$40.00	Retail Rent psf (NNN)	7.00%	Construction Loan Interest Only Rate
1	Demolition (months)	$110.00	Building Hard Cost psf	$300.00	Residential-Condo Price psf	80.0%	Loan-to-Cost Ratio
12	Construction (months)	20%	Soft Cost	9.00%	Residual Value Cap Rate	7.00%	Permanent Loan Interest Rate
5	Absorption (months)	$132.00	Total Cost psf	60.00%	% Pre-Leased	25	Permanent Loan Amortization Term (years)
		$1,972,000	Total Cost (w/o inflation)	5.00%	Stabilized Vacancy	125.0%	% Loan psf Paydown @ Condo Sales
		$10.00	Operating Exp. psf (on vacant sf)	2.00%	Annual Income Inflation		
		2.00%	Annual Expense Inflation	15%	Discount Rate till 1 Year Stabilization		
				10%	Discount Rate @ 1 Year Stabilization		

One of the more important assumptions to call out is the new building size. Under current zoning, buildings are allowed have up to a 1.85 Floor to Area ratio (FAR). By assuming that the average Hill's buildings land area is 7,727 square feet using the average FAR of 1.1 on The Hill today, RCG then calculates the size of the new building using the entire 1.85 FAR on this average land area. The resulting building is 14,295 square feet or roughly 68% larger than the original 8,500 square foot building. This additional space allows for a residential condominium use on the upper floors to be added to the building. By adding this use, the building owner will be able to sell the units to finance construction. Like the renovation scenario, the retail rents will increase by $5 NNN per square foot annually. The residential condos will sell for $300 per square foot. The time required for both demolition and construction will also increase to 13 months.

The resulting reconstruction scenario cash flow follows:

	Average Hill Building RECONSTRUCTION - Building Owner Cash Flow										
	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	Total
Pre Reconstuction Cash Flow	$282,625	$0	$0	$0	$0	$0	$0	$0	$0	$0	$282,625
Construction Cost - Equity Required	$0	($402,930)	$0	$0	$0	$0	$0	$0	$0	$0	($402,930)
Retail Rent	$0	$0	$230,779	$288,239	$294,003	$299,883	$305,881	$311,999	$318,239	$324,603	$2,373,626
Residential-Apt Rent	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Office Rent	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Stabilized Vacancy Expense	$0	$0	($7,065)	($14,412)	($14,700)	($14,994)	($15,294)	($15,600)	($15,912)	($16,230)	($114,207)
Operating Expense	$0	$0	($17,113)	($7,206)	($7,350)	($7,497)	($7,647)	($7,800)	($7,956)	($8,115)	($70,684)
Operating Net Income	$282,625	($402,930)	$206,602	$266,621	$271,953	$277,392	$282,940	$288,599	$294,371	$300,258	$2,068,431
Residential-Condo Sales	$0	$0	$2,119,401	$0	$0	$0	$0	$0	$0	$0	$2,119,401
Office-Condo Sales	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Principle Paydown	$0	$0	($805,859)	$0	$0	$0	$0	$0	$0	$0	($805,859)
Residual Value	$0	$0	$0	$0	$0	$0	$0	$0	$0	$3,336,202	$3,336,202
Principal Outstanding	$0	$0	$0	$0	$0	$0	$0	$0	$0	($677,935)	($677,935)
Sale Net Income	$0	$0	$1,313,542	$0	$0	$0	$0	$0	$0	$2,658,267	$3,971,809
Construction Loan Interest	$0	($42,370)	($9,402)	$0	$0	$0	$0	$0	$0	$0	($51,771)
Permanent Loan Interest	$0	$0	($58,118)	($55,097)	($54,141)	($53,117)	($52,019)	($50,842)	($49,579)	($48,225)	($421,138)
Permanent Loan PrinciplePmt	$0	$0	($12,787)	($13,212)	($14,167)	($15,191)	($16,289)	($17,467)	($18,729)	($20,083)	($127,925)
Total Debt Service	$0	($42,370)	($80,307)	($68,308)	($68,308)	($68,308)	($68,308)	($68,308)	($68,308)	($68,308)	($600,834)
Cash Flow After Debt Service	$282,625	($445,299)	$1,439,837	$198,312	$203,645	$209,084	$214,632	$220,291	$226,063	$2,890,217	$5,439,406

Reconstruction Cumulative Cash Value	$5,439,406	-10%	$6,047,911	Status Quo Cumulative Cash
Reconstruction Net Present Value	$2,900,600	-12%	$3,294,085	Status Quo NPV
		Variance b/t Status Quo & Reconstruction		

The reconstruction scenario cumulative cash value is $5.4 million and the net present value is $2.9 million. As with the renovation scenario, there is a negative cash flow in year 2 (2005) that is recouped in 2006 where a large portion of building value is monetized through sale of the new condo use. Yet, this significant increase in density does not benefit the landowner. The pro forma demonstrates that the increased rental rates, added uses, and additional size do not make a large enough financial impact to overcome the cost of construction and downtime incurred by such a construction project.

While the reconstruction scenario has the benefit of a large cash payout in year 2006 from the sale of the residential condo portion of the building, the equity investment required by the landowner to rebuild the building is significant (+$400k). Additionally, the ongoing retail rent is diminished by debt service. In all, the renovation scenario results in 10% less cumulative cash over a 10-year period than the status quo scenario. The reconstruction net present value is also 12% less than that of the status quo demonstrating the additional risk involved.

The following sensitivity table demonstrates that when the rent assumptions in the scenario are varied, the reconstruction scenario's financial performance still fails to better that of the status quo scenario.

Today, the average Hill building owner has financial incentives to NOT reinvest in their property.

	Rent After New Construction					
	$25	$30	$32.5	$35	$37.5	$40
$25	-26%	-9%	-1%	7%	15%	23%
$26	-28%	-13%	-5%	3%	11%	19%
$27	-31%	-16%	-8%	-1%	7%	15%
$28	-33%	-19%	-11%	-4%	3%	11%
$29	-35%	-21%	-14%	-7%	0%	7%
$30	-37%	-24%	-17%	-10%	-3%	4%
$31	-39%	-26%	-19%	-13%	-6%	0%
$32	-41%	-28%	-22%	-15%	-9%	-3%
$33	-43%	-30%	-24%	-18%	-12%	-5%
$34	-44%	-32%	-26%	-20%	-14%	-8%
$35	-46%	-34%	-28%	-22%	-16%	**-10%**
Status Quo Rent						**Cumulative Cash Variance**

Economics of Transferable Development Rights

Financially feasible redevelopment on The Hill becomes possible for the average Hill building owner when there are changes made to the allowable density on The Hill for individual owners. These density variances could be allowed under the system of transferable development rights (TDRs), although this process would require more public review in order to achieve a height variance. When this occurs, it is possible for individual building owners to reinvest in their buildings and reap a greater profit than if they were to remain in the status quo scenario and do nothing to improve the buildings. The following financial model demonstrates the economics of transferable development rights whereby the density not used on one parcel is transferred to another. As with the prior two reinvestment scenarios, the status quo cash flow remains the same and use of transferable development rights is analyzed in comparison to this status quo. Again, the cumulative cash value of the status quo scenario is $6.0 million and the NPV is $3.2 million.

The following size and use assumptions are made in the TDR model:

TRANSFERABLE DEVELOPMENT RIGHTS - Parcel X transfer development rights to Parcel Y

Assumptions -Building Size and Uses

Parcel Size - Existing and New

	Existing Building Size	Land SF	Max Bldg Size	Bldg Size After Transfer	% RBA	New RBA
Parcel X	8,500	7,727	14,295	8,500	95%	8,075
Parcel Y	8,500	7,727	14,295	20,091	95%	**19,086**
	17,000	15,455	28,591	28,591		27,161
Avg District FAR		1.1	1.85	2.6	New Parcel Y FAR	
			Max FAR			

New Uses - Parcel Y

	Bldg Uses	RBA
Retail	40%	7,635
Resid-Condo	30%	5,726
Office-Condo	30%	5,726
Total	100%	**19,086**

In the TDR scenario, Parcel X and Parcel Y are average Hill Parcels. They hold buildings of 8,500 square feet and have an FAR of 1.1. Exercising transferable development rights allows Parcel X to sell to Parcel Y the density it has not used under current zoning. Parcel Y then takes this density and adds it to its allowable density under zoning. Therefore, Parcel X retains its 8,500 square foot building while Parcel Y density grows to allow a 20,091 square foot building. The resulting Parcel Y FAR is 2.6. With the additional size, Parcel Y can add multiple uses to its existing retail use. In this example, residential and office uses are added to the site.

The remaining assumptions are similar to those in the reconstruction scenario. Retail rent is increased by

Assumptions -Timing, Cost, Revenue, & Financing

Project Timeline		Building Constuction Costs		Revenue		Financing	
1-Jan-05	Start Date	$10.00	Demolition per bldg sf	$40.00	Retail Rent psf (NNN)	7.00%	Construction Loan Interest Only Rate
1	Demolition (months)	$110.00	Building Hard Cost psf	$300.00	Residential-Condo Price psf	80.0%	Loan-to-Cost Ratio
12	Construction (months)	20%	Soft Cost	$250.00	Office-Condo Price psf	7.00%	Permanent Loan Interest Rate
5	Absorption (months)	$132.00	Total Cost psf	9.00%	Residual Value Cap Rate	25	Permanent Loan Amortization Period
		$2,737,000	Total Cost (w/o inflation)	60.00%	% Pre-Leased	125.0%	% Loan psf Paydown @ Condo Sales
		$5.00	Operating Exp. psf (on vacant sf)	5.00%	Stabilized Vacancy		
		2.00%	Annual Expense Inflation	2.00%	Annual Income Inflation		
				15%	Discount Rate till 1 Year Stabilization		
				10%	Discount Rate @ 1 Year Stabilization		

$5 per square foot to $40 NNN per square foot, residential condo prices are $300 per square foot and construction takes 13 months to complete. Additionally, the office condo price is $250 per square foot.

The resulting cash flow that follows demonstrates why the use of transferable development rights makes property reinvestment feasible for property owners.

	Transferable Development Rights - Building Owner Cash Flow										
	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	Total
Pre- Construction Cash Flow	$282,625	$0	$0	$0	$0	$0	$0	$0	$0	$0	$282,625
Construction Cost- Equity Required	$0	($559,250)	$0	$0	$0	$0	$0	$0	$0	$0	($559,250)
Retail Rent	$0	$0	$259,471	$324,074	$330,555	$337,166	$343,910	$350,788	$357,803	$364,960	$2,668,726
Residential-Apt Rent	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Office Rent	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Stabilized Vacancy Expense	$0	$0	($7,943)	($16,204)	($16,528)	($16,858)	($17,195)	($17,539)	($17,890)	($18,248)	($128,406)
Operating Expense	$0	$0	($4,810)	($2,025)	($2,066)	($2,107)	($2,149)	($2,192)	($2,236)	($2,281)	($19,868)
Operating Net Income	$282,625	($559,250)	$246,718	$305,844	$311,961	$318,201	$324,565	$331,056	$337,677	$344,431	$2,243,827
Residential-Condo Sales	$0	$0	$1,787,171	$0	$0	$0	$0	$0	$0	$0	$1,787,171
Office-Condo Sales	$0	$0	$1,489,309	$0	$0	$0	$0	$0	$0	$0	$1,489,309
Principle Paydown	$0	$0	($1,342,199)	$0	$0	$0	$0	$0	$0	$0	($1,342,199)
Residual Value	$0	$0	$0	$0	$0	$0	$0	$0	$0	$3,827,006	$3,827,006
Principal Outstanding	$0	$0	$0	$0	$0	$0	$0	$0	$0	($752,073)	($752,073)
Sale Net Income	$0	$0	$1,934,280	$0	$0	$0	$0	$0	$0	$3,074,933	$5,009,214
Construction Loan Interest	$0	($58,033)	($13,049)	$0	$0	$0	$0	$0	$0	$0	($71,082)
Permanent Loan Interest	$0	$0	($68,272)	($61,122)	($60,062)	($58,926)	($57,708)	($56,402)	($55,001)	($53,499)	($470,991)
Permanent Loan PrinciplePmt	$0	$0	($14,998)	($14,657)	($15,716)	($16,852)	($18,070)	($19,377)	($20,777)	($22,279)	($142,726)
Total Debt Service	$0	($58,033)	($96,319)	($75,778)	($75,778)	($75,778)	($75,778)	($75,778)	($75,778)	($75,778)	($684,800)
Cash Flow After Debt Service	$282,625	($617,283)	$2,084,679	$230,066	$236,183	$242,422	$248,786	$255,278	$261,899	$3,343,586	$6,568,241
Transfer Cumulative Cash Value	$6,568,241	9%	$6,047,911 Status Quo Cumulative Cash								
Transfer Scenario Net Present Value	$3,559,237	8%	$3,294,085 Status Quo NPV								
Variance b/t Status Quo & Transfer Scenario											
		$265,152	Value of Transfer Rights (TDR NPV - Status Quo)								

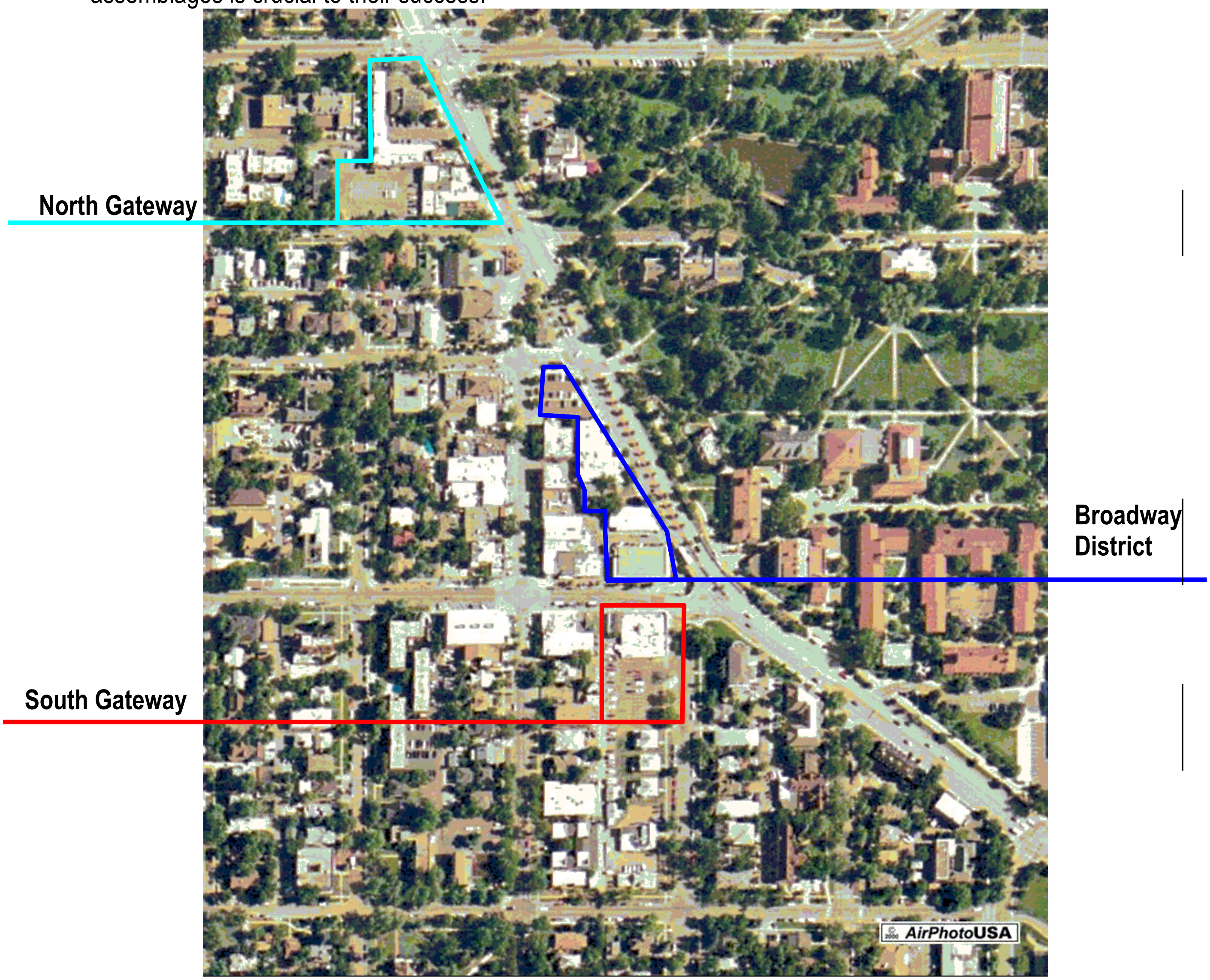
By transferring development rights, the building owner is able to increase their cumulative cash value over the status quo by 9% from $6.0 million up to $6.5 million. The NPV of this TDR scenario ($3.5 million) is also greater than that of the status quo ($3.2 million). While this scenario requires a significant cash investment by the property owner ($600k) in year 2005, the gains from saleable and rentable square footage outweigh the downtime and burden of debt. For The Hill building owner that has some appetite for risk, funds available for reinvestment, and the opportunity to increase density through TDRs, significant financial potential exists for redevelopment.

There is also financial reason for an average Hill building owner to transfer their development rights. The value of these rights to the owner who buys them is equal to the difference between the NPV of the status quo scenario and that of the TDR scenario, or $265,152 as in the case of this pro forma. This means the owner of Parcel X could receive this amount in cash from the owner of Parcel Y in payment of their development rights.

Economics of Assemblage

Another scenario in which it is possible for a property owner to make economic gains by reinvesting in their property over those that would naturally accrue from the status quo is by participating in an assemblage development. Doing so allows for maximized density, additional complimentary uses, and the unique opportunity to partner with the UHGID/City of Boulder on parking needs.

In analyzing the economics of an assemblage scenario, RCG has looked to three of the four microzones. These are the Broadway District and the North and South Gateways. A status quo scenario was developed for each microzone using rent estimates and actual building sizes. Then, a financial assemblage model was built for each microzone. Each microzone includes a UHGID/City of Boulder operated parking lot. It has been assumed that the UHGID/City of Boulder lots will be included in the assemblages and that the assemblages will then be built to include an expanded number of city parking spaces. These spaces would be financed exclusively from property tax and revenue bonds. UHGID/City of Boulder participation in these assemblages is crucial to their success.



North Gateway Assemblage Economics

North Gateway STATUS QUO

Assumptions			Bldg SF	% RBA	RBA
10%	Discount Rate	1301-1311 Broadway	10,222	95%	9,711
10%	Residual Value Cap Rate	1313-1335 Broadway	17,769	95%	16,881
$25.00	Rent NNN Estimate	1339 Broadway	5,575	95%	5,296
3%	Annual Rent Inflation	0 Pleasant St	0	95%	0
		Total	33,566		31,888

The North Gateway encompasses roughly 1.5 acres of land and today holds 33,566 square feet of buildings. In RCG status quo assumptions of future building revenue, we have used a $25 NNN rent estimate to reflect the off 13th Street location and generally run down condition and configuration of the buildings but assumed a 3% inflation to account for the strong retail sales demonstrated in recent years by North Gateway businesses. Actual retail sales dollars are not shown to protect the privacy of individual businesses housed within the buildings.

The status quo total cash flows for all private building owners in the North Gateway follows:

	Status Quo North Gateway Building Owners' Cash Flow										
	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	Total
Rent NNN	$656,887	$676,593	$696,891	$717,798	$739,332	$761,512	$784,357	$807,888	$832,124	$857,088	$7,530,469
									Residual Value	$8,570,880	$8,570,880
North Gateway Cash Flow	$656,887	$676,593	$696,891	$717,798	$739,332	$761,512	$784,357	$807,888	$832,124	$9,427,969	$16,101,349
Status Quo Cumulative Cash	$16,101,349										
Status Quo Net Present Value	$8,608,913										

The cumulative cash value of the status quo scenario for private building owners in the North Gateway assemblage area is $16.1 million over a ten year period and it is assumed the buildings are sold in year 10. The net present value of the cash flow is $8.6 million.

The assemblage scenario against which this status quo scenario will be compared, allows for a large scale redevelopment. The new uses that are enabled by assemblage include Office condominiums and Residential condominiums in addition to replacement of the existing retail and parking with updated versions. The assemblage assumes that the City donates their Pleasant Street lot into the mix and then builds the parking underground parking component of the assemblage. In doing so, this allows the City to expand their parking capacity and collect parking fees from the associated development. Therefore, under an assemblage scenario, building square feet goes from 33,566 square feet at .76 FAR excluding the Pleasant St Lot to 118,010 building square feet at a 1.85 FAR including the Pleasant St Lot. Total rentable retail space also increased from 31,888 square feet up to 44,844 square feet in addition to adding approximately 67,000 square feet of office and residential space.

North Gateway Assemblage (Non-City) Assumptions -Size & Use

Pre-Assemblage - Existing Structures

	Parcel Land SF	Bldg SF
1301-1311 Broadway	13,564	10,222
1313-1335 Broadway	22,883	17,769
1339 Broadway	7,684	5,575
0 Pleasant St	19,658	0
Total	63,789	33,566

Assemblage - Density and Bldg Size

Land SF	FAR	Bldg SF	% RBA	RBA	# Floors	Open Space
63,789	**1.85**	118,010	95%	**112,109**	2.5	26%

Assemblage - New Uses

	Bldg Uses	RBA	Pkg per 1000/per unit	Required Parking	Retail Sales psf
Retail	40%	44,844	0	0	$400
Resid-Condo	30%	33,633	1	34	
Office-Condo	30%	33,633	3	101	
Total	100%	**112,109**		135	

The financial assumptions are similar to those in the previous redevelopment models. Construction is scheduled to last 13 months with total costs of $132 per square foot financed with an 80% loan to cost. Retail rent is projected at $40 NNN psf with Residential condo sales at $300 psf and Office condos at $250 psf. While the $40 NNN psf rent is considerably higher than the pre-assemblage rate, it recognizes the ability of this parcel to attract retailers on a broader basis to The Hill. Rents charged will be higher than existing rates on 13th Street because of the new construction, higher ceiling heights, access to parking, and ability to create an address because of the development's scale. It is also assumed that upon completion of construction, it takes 5 months to absorb the uses on the site. All financial assumptions follow:

North Gateway Assemblage (Non-City) Assumptions -Timing, Cost, Revenue, & Financing			
Project Timeline	**Building Constuction Costs**	**Revenue**	**Financing**
1-Jan-05 Start Date	$10.00 Demolition per bldg sf	$40.00 Retail Rent psf (NNN)	7.00% Construction Loan Interest Only Rate
1 Demolition (months)	$110.00 Building Hard Cost psf	$300.00 Residential-Condo Price psf	80.0% Loan-to-Cost Ratio
12 Construction (months)	20% Soft Cost	$250.00 Office-Condo Price psf	7.00% Permanent Loan Interest Rate
5 Absorption (months)	$132.00 Total Cost psf	9.00% Residual Value Cap Rate	25 Permanent Loan Amortization Term
	$15,912,934 Total Cost (w/o inflation)	60.00% % Pre-Leased	125.0% % Loan psf Paydown @ Sale
	$5.00 Operating Exp. psf (on vacant sf)	5.00% Stabilized Vacancy	
	2.00% Annual Expense Inflation	2.00% Annual Income Inflation	
		15% Discount Rate til 1 Year Stabilization	
		10% Discount Rate @ 1 Year Stabilization	

The following private building owners' cash flows result from the above mentioned assumptions:

	Building Owners' (Non-City) Assemblage Cash Flow - NORTH GATEWAY										
	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	Total
Pre Constuction Building Cash Flow	$656,887	$0	$0	$0	$0	$0	$0	$0	$0	$0	$656,887
Construction Cost- Equity Required	$0	($3,251,535)	$0	$0	$0	$0	$0	$0	$0	$0	($3,251,535)
Retail Rent	$0	$0	$2,667,131	$3,331,192	$3,397,816	$3,465,772	$3,535,088	$3,605,789	$3,677,905	$3,751,463	$27,432,157
Residential-Apt Rent	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Office Rent	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Stabilized Vacancy Expense	$0	$0	($81,647)	($166,560)	($169,891)	($173,289)	($176,754)	($180,289)	($183,895)	($187,573)	($1,319,898)
Operating Expense	$0	$0	$104,706	$147,344	$146,927	$146,503	$146,069	$145,628	$145,177	$144,717	$1,127,071
Operating Net Income	$0	$0	$2,690,190	$3,311,976	$3,374,853	$3,438,986	$3,504,403	$3,571,128	$3,639,187	$3,708,607	$27,239,329
Residential-Condo Sales	$0	$0	$10,497,454	$0	$0	$0	$0	$0	$0	$0	$10,497,454
Office-Condo Sales	$0	$0	$8,747,878	$0	$0	$0	$0	$0	$0	$0	$8,747,878
Principle Paydown	$0	$0	($7,803,683)	$0	$0	$0	$0	$0	$0	$0	($7,803,683)
Residual Value	$0	$0	$0	$0	$0	$0	$0	$0	$0	$41,206,747	$41,206,747
Principal Outstanding	$0	$0	$0	$0	$0	$0	$0	$0	$0	($4,372,629)	($4,372,629)
Sale Net Income	$0	$0	$11,441,649	$0	$0	$0	$0	$0	$0	$36,834,118	$48,275,767
Construction Loan Interest	$0	($333,864)	($75,869)	$0	$0	$0	$0	$0	$0	$0	($409,733)
Permanent Loan Interest	$0	$0	($396,940)	($355,368)	($349,208)	($342,603)	($335,520)	($327,925)	($319,781)	($311,048)	($2,738,393)
Permanent Loan PrinciplePmt	$0	$0	($87,199)	($85,214)	($91,375)	($97,980)	($105,063)	($112,658)	($120,802)	($129,535)	($829,826)
Total Debt Service	$0	($333,864)	($560,007)	($440,583)	($440,583)	($440,583)	($440,583)	($440,583)	($440,583)	($440,583)	($3,977,952)
Cash Flow After Debt Service	$656,887	($3,585,399)	$13,571,832	$2,871,393	$2,934,270	$2,998,403	$3,063,820	$3,130,545	$3,198,604	$40,102,142	$68,942,496
North Gateway Cumulative Cash Value	$68,942,496	328%	$16,101,349 Status Quo Cumulative Cash								
North Gateway Net Present Value	$34,542,492	301%	$8,608,913 Status Quo NPV								
	Variance b/t Status Quo & Assemblage										

As can be seen, the cumulative cash value of assemblage ($68.9m) is dramatically more than that of the status quo ($16m). This is primarily due to the significant value unleashed through greater density, additional land and uses. While a significant investment ($3.2 million) is required, the payout over that which is possible in a status quo scenario is tremendous.

While the financial pro forma details of the City portion of the assemblage are not presented in this report in order to protect the City's privacy; these pro formas do demonstrate adequate financial incentive to the City to warrant participate. Assuming 3 levels of subterranean parking, the City will be able provide up to 407 parking spaces in the North Gateway that will serve the need of both The Hill district and the new development in the assemblage.   The underground structure will be built by the City and could be financed from the parking revenue generated on site, through general obligation bonds, or other forms of public financing: not from any sales tax increment generated through development. However, the City will see dramatically increased sales tax revenue from such a redevelopment.

South Gateway Assemblage Economics

South Gateway Status Quo

Assumptions			Bldg SF	% RBA	RBA
10%	Discount Rate	0 14th St	0	0%	0
10%	Residual Value Cap Rate	1352-1370 College Ave	17,557	95%	16,679
$25.00	Rent NNN Estimate	1350 College Ave	1,302	95%	1,237
1%	Annual Rent Inflation		18,859		17,916

The South Gateway encompasses less than one acre of land and today holds 18,859 square feet of buildings. In RCG assumptions of status quo future building revenue, we have used a $25 NNN rent estimate to reflect the off 13th Street location, age and configuration of the buildings. Rents are assumed to increase at 1% to reflect historic retail sales growth in the South Gateway's current building stock. Again, actual retail sales dollars are not shown to protect the privacy of individual businesses housed within the buildings

The status quo total cash flows for all private building owners in the South Gateway follows:

South Gateway Status Quo Building Owners' Cash Flow

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	Total
Rent NNN	$452,380	$456,904	$461,473	$466,088	$470,749	$475,456	$480,211	$485,013	$489,863	$494,762	$4,732,898
									Residual Value	$4,947,616	$4,947,616
South Gateway Cash Flow	$452,380	$456,904	$461,473	$466,088	$470,749	$475,456	$480,211	$485,013	$489,863	$494,762	$4,732,898
Status Quo Cumulative Cash	$4,732,898										
Status Quo Net Present Value	$3,174,364										

The cumulative cash value of the status quo scenario for private building owners in the South Gateway assemblage area is $4.7 million over a ten year period also assuming building sale in year 10. The net present value is $3.1 million.

Like the North Gateway, assemblage on the South Gateway allows for large scale development to take on the site. The new uses that are enabled by assemblage include Office condominiums and Residential condominiums in addition to replacement the existing retail and parking with modern floor spaces. The assemblage assumes that the City donates their 14th Street lot into the mix and then builds the parking underground parking component of the assemblage. In doing so, this allows the City to expand their parking capacity and collect parking fees from the associated development. Therefore, under an assemblage scenario, building square feet goes from 18,859 square feet at 1.5 FAR excluding the 14th Street Lot to 55,261 building square feet at a 1.85 FAR including the 14th Street Lot. Total rentable retail space also increased from 17,916 square feet up to 20,999 square feet in addition to adding approximately 31,000 square feet of office and residential space.

South Gateway Assemblage (Non-City) Assumptions -Size & Use

Pre-Assemblage - Existing Structures

	Land SF	Bldg SF
0 14th St	16,888	0
1352-1370 College Ave	11,390	17,557
1350 College Ave	1,593	1,302
Total	29,871	18,859

Assemblage - Density and Bldg Size

Land SF	FAR	Bldg SF	% RBA	RBA	# Floors	Open Space
29,871	1.85	55,261	95%	52,498	2.5	26%

Assemblage - New Uses

	Bldg Uses	RBA	Pkg per 1000/ per unit	Required Parking	Sales psf
Retail	40%	20,999	0	0	$420.00
Resid-Condo	30%	15,749	1	16	
Office-Condo	30%	15,749	3	47	
Total	100%	52,498		63	

The financial assumptions are similar to those on in the previous redevelopment models. Construction is scheduled to last 13 months with total costs of $132 per square foot financed with an 80% loan to cost. Retail rent is projected at $40 NNN psf with Residential condo sales at $300 psf and Office condos at $250 psf. While the $40 NNN psf rent is considerably higher than the pre-assemblage rate, it recognizes the ability of this parcel to attract retailers on a broader basis to The Hill. Rents charged will be higher than existing rates on 13th Street because of the new construction, higher ceiling heights, access to parking, and ability to create an address because of the development's scale. It is also assumed that upon completion of construction, it takes 5 months to absorb the uses on the site. All financial assumptions follow:

South Gateway Assemblage (Non-City) Assumptions -Timing, Cost, Revenue, & Financing			
Project Timeline	**Building Constuction Costs**	**Revenue**	**Financing**
1-Jan-05 Start Date	$10.00 Demolition per bldg sf	$40.00 Retail Rent psf (NNN)	7.00% Construction Loan Interest Only Rate
1 Demolition (months)	$110.00 Building Hard Cost psf	$300.00 Residential-Condo Price psf	80.0% Loan-to-Cost Ratio
12 Construction (months)	20% Soft Cost	$250.00 Office-Condo Price psf	7.00% Permanent Loan Interest Rate
5 Absorption (months)	$132.00 Total Cost psf	9.00% Residual Value Cap Rate	25 Permanent Loan Amortization Term
	$7,483,088 Total Cost (w/o inflation)	60.00% % Pre-Leased	125.0% % Loan psf Paydown @ Sale
	$5.00 Operating Exp. psf (on vacant sf)	5.00% Stabilized Vacancy	
	2.00% Annual Expense Inflation	2.00% Annual Income Inflation	
		15% Discount Rate til 1 Year Stabilization	
		10% Discount Rate @ 1 Year Stabilization	

The following cash flows result from the above mentioned assumptions:

Building Owners' (Non-City) Assemblage Cash Flow - SOUTH GATEWAY	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	Total
Existing Building Revenue	$452,380	$0	$0	$0	$0	$0	$0	$0	$0	$0	$452,380
Construction Cost- Equity Required	$0	($1,529,030)	$0	$0	$0	$0	$0	$0	$0	$0	($1,529,030)
Retail Rent	$0	$0	$713,691	$891,386	$909,213	$927,398	$945,945	$964,864	$984,162	$1,003,845	$7,340,504
Residential-Apt Rent	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Office Rent	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Stabilized Vacancy Expense	$0	$0	($21,848)	($44,569)	($45,461)	($46,370)	($47,297)	($48,243)	($49,208)	($50,192)	($353,188)
Operating Expense	$0	$0	($13,231)	($5,571)	($5,683)	($5,796)	($5,912)	($6,030)	($6,151)	($6,274)	($54,648)
Operating Net Income	$0	$0	$678,613	$841,245	$858,070	$875,231	$892,736	$910,591	$928,803	$947,379	$6,932,667
Residential-Condo Sales	$0	$0	$4,915,729	$0	$0	$0	$0	$0	$0	$0	$4,915,729
Office-Condo Sales	$0	$0	$4,096,441	$0	$0	$0	$0	$0	$0	$0	$4,096,441
Principle Paydown	$0	$0	($3,669,672)	$0	$0	$0	$0	$0	$0	$0	($3,669,672)
Residual Value	$0	$0	$0	$0	$0	$0	$0	$0	$0	$10,526,429	$10,526,429
Principal Outstanding	$0	$0	$0	$0	$0	$0	$0	$0	$0	($2,056,223)	($2,056,223)
Sale Net Income	$0	$0	$5,342,498	$0	$0	$0	$0	$0	$0	$8,470,206	$13,812,704
Construction Loan Interest	$0	($157,687)	($35,677)	$0	$0	$0	$0	$0	$0	$0	($193,364)
Permanent Loan Interest	$0	$0	($186,660)	($167,112)	($164,215)	($161,109)	($157,778)	($154,206)	($150,376)	($146,270)	($1,287,726)
Permanent Loan PrinciplePmt	$0	$0	($41,005)	($40,072)	($42,969)	($46,075)	($49,406)	($52,977)	($56,807)	($60,914)	($390,225)
Total Debt Service	$0	($157,687)	($263,343)	($207,184)	($207,184)	($207,184)	($207,184)	($207,184)	($207,184)	($207,184)	($1,871,315)
Net Income	$452,380	($1,686,717)	$5,757,768	$634,062	$650,886	$668,048	$685,552	$703,407	$721,619	$9,210,401	$17,797,407
South Gateway Cumulative Cash Value	$17,797,407	276%	$4,732,898	Status Quo Cumulative Cash							
South Gateway Net Present Value	$9,506,603	199%	$3,174,364	Status Quo NPV							
	Variance b/t Status Quo & Assemblage										

The cumulative cash value of the South Gateway assemblage is $17.7 million and dramatically more than that of the status quo at $4.7 million. This is due to the significant value unleashed through greater density, additional land and uses. As in the North Gateway assemblage, a significant cash investment of $1.6 million is required in the South Gateway to obtain this dramatic cash improvement over the status quo.

Again, pro forma details of the City portion of the assemblage are not disclosed, but do demonstrate significant financial motivation for City involvement in the South Assemblage. Assuming 3 levels of subterranean parking, the City can provide up to 190 parking spaces that will serve the need of both The Hill district and the new development in the assemblage. The underground structure will be built by the City and could be financed from the parking revenue generated on site, through general obligation bonds, or other forms of public financing: not from any sales tax increment generated through development. However, the City will see dramatically increased sales tax revenue from such a redevelopment.

Broadway District Assemblage Economics

The Broadway District encompasses roughly 1.1 acres of land and today holds 50,403 square feet of buildings which equates to an FAR of .98. RCG uses a $25 NNN status quo rent estimate to reflect the off 13th Street location and the generally obsolete condition and configuration of the buildings. Rents inflate at 1% a year in line with historical sales growth in the Broadway District. Sales dollars are not shown to protect the privacy of individual businesses housed within the buildings.

Assumptions	
10%	Discount Rate
10%	Residual Value Cap Rate
$25.00	Rent NNN Estimate
1%	Annual Rent Inflation

Broadway District Status Quo

	Bldg SF	% RBA	RBA
0 Broadway Lot	0	0%	0
1111 Broadway	9,541	95%	9,064
1121 Broadway	6,900	95%	6,555
1127 Broadway	2,735	95%	2,598
1135 Broadway	31,227	95%	29,666
	50,403		47,883

The status quo scenario Broadway District cash flows for both the privately owned buildings follows:

Status Quo Broadway District Building Owner Cashflow

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	Total
Rent NNN	$1,209,042	$1,221,132	$1,233,344	$1,245,677	$1,258,134	$1,270,715	$1,283,422	$1,296,257	$1,309,219	$1,322,311	$12,649,254
									Residual Value	$13,223,114	$13,223,114
Broadway District Cash Flow	$1,209,042	$1,221,132	$1,233,344	$1,245,677	$1,258,134	$1,270,715	$1,283,422	$1,296,257	$1,309,219	$14,545,425	$25,872,368
Status Quo Cumulative Cash	$25,872,368										
Status Quo Net Present Value	$14,091,771										

The cumulative cash value of the status quo scenario for private building owners in the Broadway District assemblage area is $25.8 million over a ten year period. The net present value of the cash flow is $14.0 million.

The new uses that are enabled by assemblage include Office condominiums and Residential condominiums in addition to replacing the existing retail and parking with updated versions. The assemblage assumes that equity in another City-owned lot on The Hill covers any equity requirement for the City in this development, and that the City builds the parking underground parking component of the assemblage. The development rights on top of the former CU-owned lot will be of significant value, thus creating the possibility of surplus cash for the City after selling one of their other Hill parking locations. In participating in this assemblage, the City can expand its parking capacity and collect parking fees from the associated development. Therefore, under an assemblage scenario, building square feet goes from 50,403 square feet at 1.3 FAR excluding the Broadway Lot to 94,204 building square feet at a 1.85 FAR including the Broadway Lot.

Broadway District Assemblage (Non-City) Assumptions -Size & Use

Pre-Assemblage - Existing Structures

	Parcel Land SF	Bldg SF
0 Broadway Lot	11,055	0
1111 Broadway	13,230	9,541
1121 Broadway	6,849	6,900
1127 Broadway	6,913	2,735
1135 Broadway	12,874	31,227
Total	50,921	50,403

Assemblage - Density and Bldg Size

Land SF	FAR	Bldg SF	% RBA	RBA	# Floors	Open Space
50,921	**1.85**	94,204	95%	**89,494**	2.5	26%

Assemblage - New Uses

	Bldg Uses	RBA	Pkg per 1000/per unit	Required Parking	Sales psf
Retail	40%	35,797	0	0	$400.00
Resid-Condo	30%	26,848	1	27	
Office-Condo	30%	26,848	3	81	
Total	100%	**89,494**		107	

The financial assumptions are similar to those previous models. Construction is scheduled to last 13 months with total costs of $132 per square foot financed with an 80% loan to cost. Retail rent is projected at $40 NNN psf with Residential condo sales at $300 psf and Office condos at $250 psf. It is also assumed that upon completion of construction, it takes 5 months to absorb the uses on the site. All financial assumptions follow:

Broadway District Assemblage (Non-City) Assumptions -Timing, Cost, Revenue, & Financing

Project Timeline	Building Constuction Costs	Revenue	Financing
1-Jan-05 Start Date	$10.00 Demolition per bldg sf	$40.00 Retail Rent psf (NNN)	7.00% Construction Loan Interest Only Rate
1 Demolition (months)	$110.00 Building Hard Cost psf	$300.00 Residential-Condo Price psf	80.0% Loan-to-Cost Ratio
12 Construction (months)	20% Soft Cost	$250.00 Office-Condo Price psf	7.00% Permanent Loan Interest Rate
5 Absorption (months)	$132.00 Total Cost psf	9.00% Residual Value Cap Rate	25 Permanent Loan Amortization Period
	$12,938,938 Total Cost (w/o inflation)	60.00% % Pre-Leased	125.0% % Loan psf Paydown @ Sale
	$5.00 Operating Exp. psf (on vacant sf)	5.00% Stabilized Vacancy	
	2.00% Annual Expense Inflation	2.00% Annual Income Inflation	
		15% Discount Rate till 1 Year Stabilization	
		10% Discount Rate @ 1 Year Stabilization	

The following cash flows result from the above mentioned assumptions:

Building Owners' (Non-City) Assemblage Cash Flow - BROADWAY DISTRICT

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	Total
Pre-Construction Building Cash Flow	$1,209,042	$0	$0	$0	$0	$0	$0	$0	$0	$0	$1,209,042
Construction Cost- Equity Required	$0	($2,643,771)	$0	$0	$0	$0	$0	$0	$0	$0	($2,643,771)
Retail Rent	$0	$0	$1,216,627	$1,519,542	$1,549,933	$1,580,932	$1,612,550	$1,644,801	$1,677,697	$1,711,251	$12,513,334
Residential-Apt Rent	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Office Rent	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Stabilized Vacancy Expense	$0	$0	($37,244)	($75,977)	($77,497)	($79,047)	($80,628)	($82,240)	($83,885)	($85,563)	($602,079)
Operating Expense	$0	$0	($22,554)	($9,497)	($9,687)	($9,881)	($10,078)	($10,280)	($10,486)	($10,695)	($93,159)
Operating Net Income	$0	$0	$1,156,829	$1,434,068	$1,462,749	$1,492,004	$1,521,844	$1,552,281	$1,583,327	$1,614,993	$11,818,096
Residential-Condo Sales	$0	$0	$8,379,828	$0	$0	$0	$0	$0	$0	$0	$8,379,828
Office-Condo Sales	$0	$0	$6,983,190	$0	$0	$0	$0	$0	$0	$0	$6,983,190
Principle Paydown	$0	$0	($6,345,051)	$0	$0	$0	$0	$0	$0	$0	($6,345,051)
Residual Value	$0	$0	$0	$0	$0	$0	$0	$0	$0	$17,944,371	$17,944,371
Principal Outstanding	$0	$0	$0	$0	$0	$0	$0	$0	$0	($3,555,315)	($3,555,315)
Sale Net Income	$0	$0	$9,017,967	$0	$0	$0	$0	$0	$0	$14,389,056	$23,407,023
Construction Loan Interest	$0	($276,628)	($61,688)	$0	$0	$0	$0	$0	$0	$0	($338,316)
Permanent Loan Interest	$0	$0	($322,745)	($288,944)	($283,936)	($278,565)	($272,806)	($266,630)	($260,009)	($252,908)	($2,226,544)
Permanent Loan PrinciplePmt	$0	$0	($70,900)	($69,287)	($74,295)	($79,666)	($85,425)	($91,601)	($98,222)	($105,323)	($674,719)
Total Debt Service	$0	($276,628)	($455,333)	($358,231)	($358,231)	($358,231)	($358,231)	($358,231)	($358,231)	($358,231)	($3,239,578)
Cash Flow After Debt Service	$1,209,042	($2,920,400)	$9,719,463	$1,075,837	$1,104,518	$1,133,773	$1,163,613	$1,194,050	$1,225,096	$15,645,818	$30,550,811
Broadway District Cumulative Cash Value	$30,550,811	18%	$25,872,368 Status Quo Cumulative Cash								
Broadway District Net Present Value	$16,475,420	17%	$14,091,771 Status Quo NPV								
	Variance b/t Status Quo & Assemblage										

The cumulative cash value of the Broadway District assemblage to private building owners is $30.5 million. This is substantially more than that of the status quo at $25.8 million. This is due to the significant value created by greater density, additional land and uses. The cash investment required is high in the Broadway District at $2.9 million.

City pro forma details are not disclosed but do demonstrate financial viability of City participation in the parking portion of the assemblage. Assuming 3 levels of subterranean parking, the City can provide up to 325 parking spaces that will serve the need of both The Hill district and the new development in the assemblage. The underground structure will be built by the City and could be financed from the parking revenue generated on site, through general obligation bonds, or other forms of public financing: not from any sales tax increment generated through development. However, the City will see dramatically increased sales tax revenue from such a redevelopment.

IMPACT OF HISTORIC DESIGNATION

The City of Boulder, together with The Hill landowners, may also wish to pursue designation of a Historic District on 13th Street. Historic Districts are generally appropriate in areas characterized by significant historic assets, and assets that have maintained their architectural integrity. In order to be considered for classification as a Historic District, the area and a preponderance of buildings (50% or more) must possess two of the following three criteria:

1) Significant and documented history in the buildings, or a significant history of the overall place;
2) Significant historic architecture
3) Significant historic geography

Based upon our discussion with David Cohen, a Colorado advisor to the National Trust for Historic Preservation, member of the Landmark Commission, property owner in the University Hill residential area and noted developer of historic properties, The Hill should qualify in at least two of the aforementioned categories.

Establishing a Historic District has distinct positive and negative impacts, which should be carefully understood and evaluated prior to any decision to proceed. The positive benefits include:

- **Building Owner Economic Benefit (incentive to reinvest)**
    - Access to Federal and State tax credits in return for money spent on rehabilitation. These tax credits generally comprise 20% of every dollar spent above the acquisition cost, but total dollars spent must exceed the acquisition cost.
    - Access to grant funds from the Colorado Historical Society
    - Both contributing and non-contributing buildings have access to historic tax credits in a Historic District, whereas only contributing buildings would otherwise be eligible for historic tax credits when pursuing an individual Landmark designation (see below). Non-contributing buildings may have a more difficult time obtaining grant funds for renovation, preservation, restoration, or investigation.

- **Collective Marketing Benefit**
    - Opportunity to rally merchants and neighborhood behind district awareness campaign
    - Historical interpretation markers through out streetscape

- **Design Control**
    - Strict review of building renovations, and evaluation of application for demolition of non-contributing structures
    - Strict review process controls what is built and how things are renovated
    - The District has a very strong control over its own destiny, and what gets constructed within the District.

- **Grant Benefit**
    - The Historic District may have the ability to apply for State of Colorado and federal grants, which could be utilized as matching funds for streetscapes, sidewalks, lighting, and other renovations to the District. The availability of these grant funds could effectively reduce the district tax otherwise levied to make those improvements.

The negative impacts of historic designation are:

- **Review Process**
    - 3 layers (local, state, & national) of review required to obtain approval for individual building rehab can add significant time to the development/redevelopment process. This could act as a disincentive for renovation and redevelopment to occur in the area.
    - Interpretation of design guidelines in flux on a national level and subject to change

- **Limitation on Redevelopment Potential**
    - Contributing buildings need to be restored to very high standards, such that the original building integrity is not compromised. This standard of redevelopment will likely force property owners to incur significant additional expense, which may offset any benefit from historic tax credits.
    - The cost for individual property owners to sell the historic tax credits to tax credit investors is very high, often providing a disincentive for property owners of smaller buildings to go through the application process.
    - Non-contributing buildings within a historic district may loose development potential currently available to them under existing zoning absent the historic district.
- **City Burden**
    - The cost of managing a historic district would fall to the City of Boulder. This cost, covering significant design review, site review, and monitoring would add significant labor expense to the City's existing planning and zoning process. The City would need to find budget to allocate for this purpose, or secure an additional revenue source to offset the additional expenses.

Alternatively to application for a Historic District, individual property owners of historically significant buildings may apply for Landmark status, which provides their individual building access to economic benefits available under a Historic District. Under this structure, only the applicants for Landmark status are burdened by the procedural costs, preservation costs, and time required to go through the historic review process. Non-contributing building owners would not have access to historic preservation dollars, and would retain more latitude in redeveloping or renovating their properties.

POTENTIAL CITY INVOLVEMENT

The City of Boulder can certainly influence and stimulate redevelopment and re-investment on The Hill. This can take the form of financing centralized parking structures, considering zoning modifications where appropriate, considering historic designation on the district, and helping to midwife discussions with landowners and developers. The City's role can be either proactive or passive, but willingness to engage in meaningful discussions with property owners, developers, and other stakeholders will be critical in order for any of these discussions to result in meaningful change.

Parking

The City of Boulder does not own land that is large enough or in a location that would benefit from construction of a centralized parking facility on The Hill. Consequently, any parking garage would necessitate cooperation with other landowners on The Hill. If private landowners approach the City with a credible plan that involves land in a location that could support structured parking, the City should evaluate that plan on its merits.

UHGID/City of Boulder, under delegation from City Council, could have access to public revenue bonds or general obligation bonds that would allow construction of parking structures on The Hill. These parking structures would likely need to be financially self-supporting in order for such consideration to be taken seriously, and will therefore warrant a more detailed parking study concurrent with a serious redevelopment proposal and guidance from a bond underwriter as to the pros and cons of public revenue bonds, general obligation bonds, and other possible financing vehicles. The parking study should be engaged once an appropriate site has been identified by a private-sector proposed assemblage, and should help UHGID and the City determine whether such public participation is warranted.

Once the parking study has been performed and once demand for new structured parking is evidenced through that study, UHGID and the City of Boulder can determine the extent to which—if at all—they would consider partnership with the private developer. Any eventual joint venture will require approval of City Council, which would not be sought until after UHGID and City staff have made recommendations regarding participation.

Planning & Zoning

As previously discussed, one possible outcome involves potential zoning modifications to encourage and channel reinvestment on The Hill. The administrative review process falls under the jurisdiction of City Planning and Development Services, while approval is contingent upon ratification by City Council. It is possible that certain administrative changes could be done without City Council approval, although City Planning and Development Services will help guide the process.

Prior to consideration of any zoning change, however, detailed land planning and architectural studies should be performed in order to help understand the aesthetic ramifications of concepts outlined in this paper. The architectural studies will help determine building massing and potential ramifications of density transfers/increases, and will also help provide design and construction alternatives to help achieve increased densities. The land planning studies help understand civic spaces and interaction with retail/entertainment/office/residential uses on The Hill. Further, land planning will help guide placement of potential civic spaces, placement of increased or decreased building density areas, and help guide how Hill visitors will access the various areas. Lastly, land planning will help address how these potential changes to The Hill can be best integrated into surrounding residential areas—most importantly, the high density residential area between The Hill and the neighboring single family residential district.

Reinvestment Catalyst

By actively participating in this analysis process over the last few years, UHGID and the City of Boulder have illustrated that they share some of the same goals as private property owners and developers: improving the success and draw of The Hill. To that end, the City can continue shaping reinvestment in The Hill by working as a catalyst to draw property owners and developers into discussions specifically around property reinvestment and redevelopment. The City may consider sponsoring a Community Development Corporation (CDC) to assist in these discussions, and to provide a formal framework within which the discussions may proceed.

By both sponsoring and engaging in redevelopment discussions, the City of Boulder also retains a strong ability to guide development during the conceptualization phase. This participation helps inform the City as to proposed plans and helps insure better design compatibility within the neighborhood context. Further, it assures the City's ability to participate in the development of a parking structure within the context of a larger, mixed-use plan, and to contribute to that plan at an early phase which could result in better parking functionality, lower costs, and better overall design.

NEXT STEPS

RCG believes in the viability of The Hill Commercial District, and the ability for that district to broaden its development activities to include broader retailer offerings, office offerings, entertainment uses and residential uses. To that end, RCG suggests the following plan:

	Step	Purpose
1.	Review and Comment on RCG Business Plan by UHGID, Alliance, City Council, and other community groups	Build consensus on findings and next steps
2.	Engage land planner to investigate options for civic spaces	Inform land plan, prioritize areas for small parks/civic spaces
3.	Engage land planner to analyze areas for higher density and building heights	Determine appropriateness of identified areas for higher density and higher building heights
4.	Engage architect to perform density and massing study	Visualize impacts from higher density development within The Hill and the surrounding area
5.	Begin discussions with property owners and developers about re-development	Stimulate interest in property reinvestment, assemblage, and area upgrades
6.	Engage historic expert to advise City and property owners on benefits and risks of a Historic District.	Analyze best way to preserve historic value without forestalling future redevelopment efforts.
7.	Engage City Planning/Zoning in discussions regarding potential district modification	Utilize information and interest generated from steps 1 through 4 to inform discussions with City on desired changes
8.	Commission parking study	Once assemblages have been identified by private sector, utilize study to prove-up demand for structured parking in area
9.	Engage University of Colorado in parking discussions	Determine whether CU parking needs should be addressed as part of overall parking solution
10.	Engage University of Colorado in senior housing discussions	Determine whether CU would participate in plan to develop senior housing proximate to University
11.	Initiate marketing plan for The Hill	Broaden exposure and interest in Hill merchants, restaurants, and activities

GLOSSARY

Discount Rate – Conceptually, a discount rate should be thought of as the required return for a real estate investment based on its risk when compared to with returns earned on competing investments and other capital market benchmarks. For example, if the period of analysis is 10 years for our prospective real estate investment, the discount rate selected should be greater than the interest rate on a 10-year U.S. Treasury Bond plus a risk premium for real estate ownership and its attendant risks related to operation and disposition. The discount rate is used to calculate the Net Present Value of future cash flows.

Net Present Value, NPV – the present value of an investment's future net cash flows minus the initial investment. The present value of a future cash flow is what that future cash flow is worth in today's dollars. In other words, the future cash flow is discounted using the "discount rate" to yield the present equivalent of tomorrow's dollars.

Cap Rate – (short for capitalization rate) The Cap Rate is a desired real estate investor rate of return that reflects the yield the investor desires from one year's net operating income from the current market value of a particular property. The cap rare is calculated by dividing the annual net operating income by the sales price (or asking sales price).

Residual Value Cap Rate – (see Cap Rate above) The cap rate used to estimate the sale value of a property at the end of the property's holding period. The residual cap rate is used to calculate the sale value by dividing the annual net operating income from the end of the holding period by this cap rate. This calculation estimates the amount for which a future buyer would be willing to buy the property based on its cash flow.

Inflation – The annual rate at which a price measure increases.

Rent NNN – (net net net lease or triple net rent) In a NNN lease, the tenant pays the landlord NNN rent plus property taxes, insurance, and maintenance. This is the NNN rent is the amount which goes directly to the landlord net of these three expenses. The landlord then uses funds from NNN rent to pay for the debt service and capital improvement thats building requires.

R.B.A. - (rentable area) Area on which a landlord can collect rent. Non-rentable areas includes the thickness of exterior walls, any columns or protrusions through the floors such as elevator shafts or structureal support or mechanical equipment closets.

Residual Value – the asset sale value or disposition value at the end of the asset's holding period.

Cumulative Cash Flow – the total aggregate amount of cash produced over the project timeline.

Absorption – The time period in which the rentable area of a building is occupied.

Hard Cost – Costs of building/property construction that include materials and labor.

Soft Cost – Costs of building/property construction that include financing, architectural and contingency fees.

Operating Expense – Building expenses that include things such as utilities, maintenance, management, trash, water and sewer expenses.

% Pre-Leased – The percent of the building that will be leased and occupied immediately following construction to tenants who committed to this immediate occupancy prior to the completion of construction.

Stabilized Vacancy – Building vacancy is difficult to estimate because of the differing timing needs of multiple tenants and the unpredictability of competitive building offerings in the future. Stabilized vacancy is an estimate of an average overall level of vacancy that a building might sustain over the course of time. It is reflected as an expense in a building cash flow to represent lost income.

Construction Loan - A short-term loan financing improvements to real estate. The lender advances funds to the borrower as needed while construction progresses. Upon completion of the construction, the borrower must obtain permanent financing or pay the construction loan in full. For RCG calculations, the construction loans are considered to be non-amortizing interest only loans.

Loan-to-Cost Ratio – The percent of construction cost that is financed. The remaining percent of the cost of construction must be paid for by the building with cash/equity.

Permanent Loan - A long term amortizing mortgage, usually ten years or more. For RCG calculations, the permanent loan principle amount is the full amount of the construction cost that was originally financed through the construction loan.

Amortization Term - the length of time required to repay (amortize) the loan amount.

Construction Cost – Equity Required – The amount of the total construction cost that is not financed, but rather is required as cash to fund construction costs.

Principal Outstanding - The amount borrowed, or the part of the amount borrowed which remains unpaid (excluding interest).

Construction Loan Interest – Because the Construction Loan used by RCG is defined as an interest – only loan, the 'construction loan interest' in the cash flow is an expense line item that demonstrates the amount of interest paid monthly during construction. This interest is calculated based on construction loan principal amount that grows over the construction time period as construction costs are incurred.

Floor to Area Ratio (FAR) – gross square footage of a building structure divided by the land area square footage. This ratio reflects an areas density and height.

APPENDIX

SIC Code Definitions

5912 Drug Stores and Proprietary Stores: Establishments engaged in the retail sale of prescription drugs, proprietary drugs, and non-prescription medicines, and which may also carry a number of related lines, such as cosmetics, toiletries, tobacco, and novelty merchandise. These stores are included on the basis of their usual trade designation rather than on the stricter interpretation of commodities handled. This industry includes drug stores which also operate a soda fountain or lunch counter.

- Apothecaries-retail
- Drug stores-retail
- Pharmacies-retail
- Proprietary (non-prescription medicines) stores-retail

5999 Miscellaneous Retail Stores, Not Elsewhere Classified: Establishments primarily engaged in the retail sale of specialized lines of merchandise, not elsewhere classified, such as artists'supplies; orthopedic and artificial limbs; rubber stamps; pets; religious goods; and monuments and tombstones. This industry also includes establishments primarily engaged in selling a general line of their own or consigned merchandise at retail on an auction basis. Establishments primarily engaged in auctioning tangible personal property of others on a contract or fee basis are classified in Services, Industry 7389.

Industry Group 594: Miscellaneous Shopping Goods Stores

- 5941 Sporting Goods Stores and Bicycle Shops
- ·5942 Book Stores ·5943 Stationery Stores ·
- 5944 Jewelry Stores ·5945 Hobby, Toy, and Game Shops ·
- 5946 Camera and Photographic Supply Stores ·
- 5947 Gift, Novelty, and Souvenir Shops
- 5948 Luggage and Leather Goods Stores ·
- 5949 Sewing, Needlework, and Piece Goods Stores